

Department for the Economy

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 2018

Department for the Economy
Annual Report and Accounts
For the year ended 31 March 2018

*Laid before the Northern Ireland Assembly by the
Department of Finance under
Section 10(4) of the Government Resources
and Accounts Act (Northern Ireland) 2001*

2 July 2018



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**DEPARTMENT FOR THE ECONOMY
PERFORMANCE REPORT
OVERVIEW
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Purpose of the Overview Section

The purpose of the overview section is to provide information on the Department for the Economy (DfE), its purpose, the key risks to the achievement of its objectives and to show how the Department has performed throughout the year.

Permanent Secretary's Overview

I am pleased to present the Annual Report for 2017-18 for the Department for the Economy. The Report provides information about the range of activities in which the Department has been engaged over the past year and its performance against its key objectives and targets.

2017-18 was a very challenging year. The Department, and the Northern Ireland Civil Service at large, spent the entirety of the year without a Minister or functioning Assembly – an unprecedented period of political uncertainty which has had, and continues to have, significant consequences for the plans of all Departments. Against this backdrop we have also continued to face the significant task of preparing for the UK's departure from the European Union. This will probably be the single most impactful and far-reaching policy development of our lifetimes, and, with a departure date set for 29 March 2019, it will continue to form a major aspect of our work programme during this financial year.

Amidst these significant challenges, we have continued in our endeavours to deliver for the people of Northern Ireland. Some major achievements during the year include: the successful introduction of new student loans to support part-time and postgraduate higher education students; exceeding targets in improving access to superfast broadband across Northern Ireland; exceeding targets in the number of students graduating from our higher education institutions in Science, Technology, Engineering and Mathematics; and the successful launch of the Peace4Youth Programme.

As covered in detail in this year's Governance Statement, our continued efforts to identify and address the issues arising from the Northern Ireland Non-Domestic Renewable Heat Incentive Scheme (RHI) was a key priority for the Department in 2017-18. The year saw the launch of an independent public inquiry into the Scheme. Supporting the work of this Inquiry, and identifying and addressing any lessons emerging from it, has been a top priority for the Department during 2017-18 and will continue to be so in 2018-19. The Department's RHI Taskforce has also progressed a number of key actions to improve control and address those issues with the Scheme with which we are already familiar, including the commencement of a new and comprehensive programme of site inspections and the successful introduction of temporary tariff regulations to control the costs of the Scheme. Looking ahead, the development and introduction of long term tariff regulations which offer a fair deal for Scheme participants while also protecting the public purse will be a key priority in 2018-19.

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The various achievements delivered during the year, of which I have highlighted only a portion above, may be considered all the more commendable in light of the uncertain political context in which we have been working. This uncertainty will likely continue for at least a portion of 2018-19. Having arrived in the Department in February 2018, I have already been struck by the dedication and commitment of staff. I would like to thank staff for all of their efforts throughout the year.

Noel Lavery

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PURPOSE AND ACTIVITIES

Introduction

The Northern Ireland Executive gave a commitment in the Stormont House Agreement to reduce the number of government departments from twelve to nine. As a result, the Department for the Economy (DfE) was established in May 2016.

DfE combines the majority of the functions of the former Department of Enterprise, Trade and Investment and the Department for Employment and Learning, with the exception of the Employment Service which is now part of the Department for Communities.

Vision, Mission and Strategic Objectives

The vision, mission and strategic objectives of the Department are set out below.

OUR VISION

A globally competitive economy that works for everyone.

OUR MISSION

To develop and implement agile policies and programmes which promote a competitive, sustainable and inclusive economy through investment in:

- skills
- economic infrastructure
- research and innovation; and,
- business development.

STRATEGIC OBJECTIVES

1. Accelerate innovation and research.
2. Enhance education, skills and employability.
3. Drive inclusive, sustainable growth.
4. Succeed in global markets.
5. Build the best economic infrastructure.
6. Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers.
7. Ensure the Department has effective governance and manages its resources, both financial and staff.

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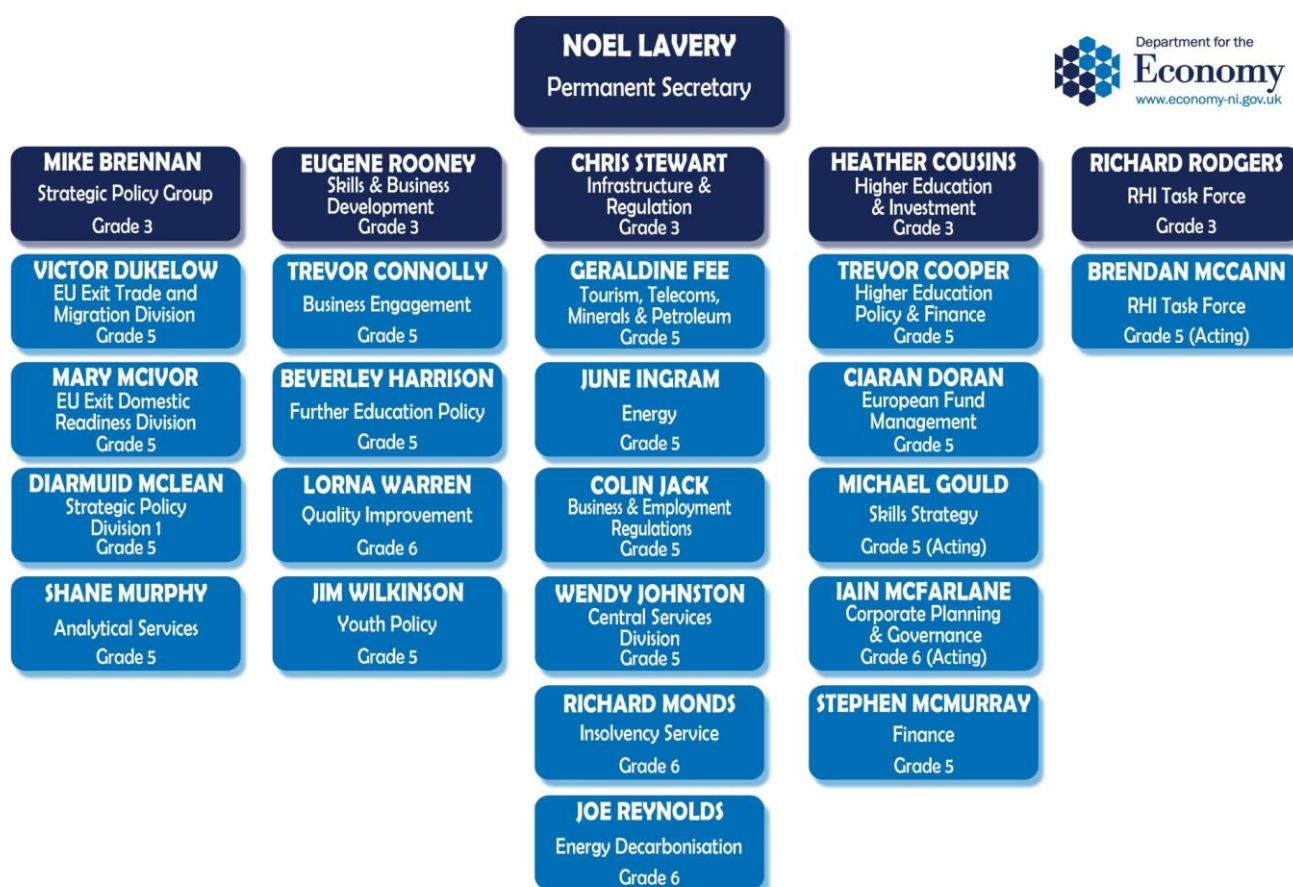
PERFORMANCE ANALYSIS

Organisational Structure

To deliver its mission and strategic objectives the Department has been structured into five main business areas (Groups) as follows:

1. Strategic policy;
2. Skills & Business Development;
3. Infrastructure & Regulation;
4. Higher Education & Investment; and,
5. RHI Taskforce

Operating under each of these Groups are a number of functionally independent Divisions, as outlined below:



ECONOMIC CONTEXT

Global Economic Developments

The International Monetary Fund (IMF) expects the global economy to grow by 3.9% in both 2018 and 2019, with the Euro area forecast to grow by 2.4% and 2.0% in 2018 and 2019 respectively.

Northern Ireland Economic Performance

The Northern Ireland economy has continued to show strength in a number of areas in 2017-18 including an improving labour market, a growing economy and strong export performance. Set alongside this, however, there has been a slowdown in the growth of employee jobs and price inflation, whilst falling over the last two months, remains high.

Overall labour market conditions have continued to improve over the year. The latest labour market statistics released in April show that the number of people claiming unemployment benefit has reduced by 2,900 over the year to March 2018 and by over 36,000 from the most recent peak five years ago. The unemployment rate continues to fall, now standing at 3.5% (December to February 2018) lower than the UK average (4.2%) and the second lowest rate among the twelve UK regions. Employment rates have also seen modest improvement over the year, increasing by 0.8 percentage points (pps) to 69.5%, however, over the last year, economic inactivity has crept up by 0.5 percentage points to 27.9% and remains significantly higher than the UK average (21.2%).

The number of employee jobs continued to increase over the year to December 2017. The total number of employee jobs increased by 2.0% (15,090 jobs) with almost 14,000 additional jobs in the private sector and circa 700 in the public sector. At the sectoral level, manufacturing employee jobs increased by 3.5%, construction jobs were up by 10.0%, services jobs were up by 1.6% and jobs in other industries experienced a contraction of 1.4% over the year.

The latest Northern Ireland Composite Economic Index estimates that on a rolling annual average basis Northern Ireland economic output grew by 1.1% in real terms over the year to Q4 2017 compared to the four quarters previously, with growth driven by improvements in the private sector. More specifically, there have been improvements in the Services and Construction sectors (up 1.1pps and 0.6pps respectively) however these were partially offset by a decrease in the Production sector (down 0.5pps).

In 2017, the value of goods exported from Northern Ireland (based on HMRC Regional Trade Statistics) was £8.55bn, an increase of over 9% compared to 2016. The largest markets for our exports continued to be the EU (£4.8bn, and £2.7bn of that to the RoI) and the United States (£1.46bn).

Research & Development (R&D) results for 2016, published in November 2017, show that R&D expenditure by Businesses, Higher Education and Government in Northern Ireland was £739.3 million in 2016, a fall of 1.3% from 2015 levels. Business expenditure on R&D (BERD), which accounts for some 71% of total R&D, was down by 2.8% in 2016

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compared to the previous year, however, this should be viewed in the context of the large increases in BERD expenditure seen in 2015. In-house BERD is currently equivalent to 1.4% of GVA, with Northern Ireland ranking as the sixth highest performing UK region.

Future Economic Outlook

The IMF predicts UK growth will slow from 1.8% in 2017 to 1.6% in 2018 and 1.5% in 2019, due to continuing weak business investment.

Meanwhile, the Office for Budgetary Responsibility (OBR) forecast for the UK economy (released in March 2018) estimates that the economy will grow by 1.5% in 2018, falling to 1.3% in 2019 and 2020 before picking up slowly over the remaining years of the forecast to 2022.

Looking ahead, local independent economic commentators forecast that, on average, the local economy will grow this year by 1.1% and by 1.2% in 2019, with the pace of growth expected to be slower when compared to the UK or the Republic of Ireland.

Key Strategies

The strategic focus of the Department remains the draft Industrial Strategy for Northern Ireland which sets out a vision for 2030 of a globally competitive economy that works for everyone with a focus on the twin goals of increased competitiveness and improved inclusivity.

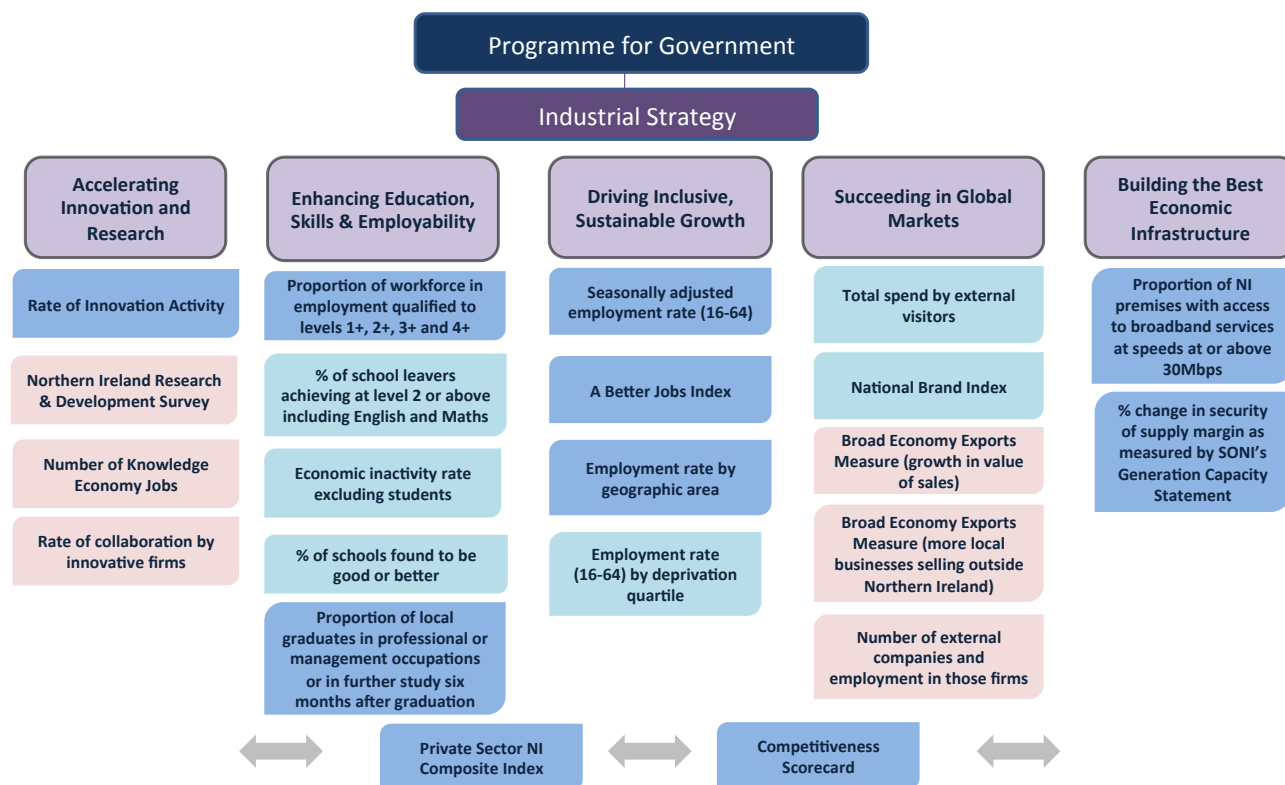
Underpinning this vision are five Pillars for Growth:

- Accelerating Innovation and Research;
- Enhancing Education, Skills and Employability;
- Driving Inclusive, Sustainable Growth;
- Succeeding in Global Markets; and,
- Building the Best Economic Infrastructure.

The draft Industrial Strategy was revised during 2017-18, following a period of consultation which took place from January to April 2017, to take into account consultation responses and stakeholder engagement feedback. There are a number of wider developments including exit from the European Union which will also need reflected in the revised Strategy to help shape our economic policy priorities to 2030. The resultant arrangements for leaving the European Union will cut across the whole Strategy and will present a range of new challenges and potential opportunities across all aspects of economic policy.

The draft Industrial Strategy has been developed within the context of the outcomes framework contained in the draft Programme for Government, (PfG) and incorporates the PfG's economic indicators into its measurement framework alongside a number of wider economic indicators. That measurement framework is outlined below:

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Underpinning the Industrial Strategy are a number of other complementary Strategies which the Department continued to work towards implementing in 2017-18, focussing on specific areas of the economy. These included: the Skills Strategy; the NEETs Strategy; the Careers Strategy; the Apprenticeships and Youth Training Strategies; and the Higher and Further Education Strategies.

The Department has also continued to develop a number of other key Strategy documents during the year, including an Energy Strategy and a Tourism Strategy. As outlined in more detail in the Performance Analysis section, work in this regard has been delayed due to ongoing political uncertainties.

The Departmental Business Plan

The 2017-18 DfE Business Plan sets out the key work planned by the Department during the year. As indicated in the performance summary table below, a significant proportion of the Department's commitments for the year as set out in the Business Plan were not achieved. As will be shown in more detail in the Performance Analysis section in this report, the ongoing absence of a Minister for the duration of the year was a major contributory factor in this regard.

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	STRATEGIC OBJECTIVES	No. of action with Green status	No. of actions with Amber/Green status	No. of actions with Amber status	No. of actions with Red status	Total
SO 1	Accelerate innovation and research.	14	1	0	3	18
SO 2	Enhance education, skills and employability.	20	1	1	8	30
SO 3	Drive inclusive, sustainable growth.	2	1	2	0	5
SO 4	Succeed in global markets.	5	2	0	2	9
SO 5	Build the best economic infrastructure.	4	1	0	2	7
SO 6	Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers.	8	1	1	3	13
SO 7	Ensure the Department has effective governance and manages its resources, both financial and staff.	16	1	4	3	24
	Total	69	8	8	21	106

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Key Corporate Issues and Risks

During the year, the Department identified and managed a number of key corporate risks to achieving its objectives. These included risks relating to:

- Inability to deliver our commitments/programmes;
- Inability to control demand for our services;
- The failure of our suppliers to provide services to required standards;
- Ineffective Governance leading to poor value for money, fraud, loss to public funds or irregular expenditure;
- Failure to achieve Provisional Non Ring-Fenced Outturn (Capital and Resource) of at least 99% but not exceeding 100% of the Final Budget;
- Failure to prepare for the Review of Financial Processes and meet the deadline for consolidation of NDPBs within the 2020-21 Departmental Accounts and Estimates;
- Failure to maximise our EU funding allocations;
- Failure to recoup the financial assistance package provided to the Presbyterian Mutual Society;
- Failure to handle the information held by the Department in accordance with relevant legislation;
- Non implementation of EU Directives and/or other relevant EU regulations; and,
- Failure to manage the Renewable Heat Incentive Schemes within budget.

Further information on the Department's risk management process is contained in the Governance Statement.

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PERFORMANCE ANALYSIS

Purpose of the Performance Analysis

The purpose of the performance analysis is to provide a detailed summary of how the Department measured its performance during 2017-18. This will include a detailed overview of performance against the commitments in the Department's 2017-18 Business Plan.

Business Plan Performance

The Department's 2017-18 Business Plan contained 106 specific actions/commitments, grouped under seven Strategic Objectives and designed to bring about improvements in a range of performance measures (indicators) identified in the draft Programme for Government and Industrial Strategy. The tables below provide an end-year position for each of them. A RAG (Red, Amber or Green) status has been provided to indicate where actions/commitments have been achieved, partially achieved or not achieved.

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Strategic Objective 1 – Accelerate innovation and research		
ACTIONS	END YEAR POSITION AT 31 MARCH 2018	RAG Status
1. Determine and communicate funding allocations in relation to annual postgraduate awards (PGAs) in higher education at Northern Ireland's universities.		Green
2. Contribute to the development of Research Excellence Framework (REF) 2021 initial guidelines as a step in developing and implementing a revised research assessment.		Green
3. Manage the NI Horizon 2020 Contact Point network to support local Universities to increase participation in, and maximise drawdown of funding from, Horizon 2020.		Green
4. Make initial recommendations on potential for new or enhanced international research and development partnerships.	Preliminary work has been carried out in anticipation of a new Minister and increased budget	Red

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<p>5. Invest in knowledge exchange activities at our Higher and Further Education Institutions to assist companies and third sector organisations to access the technology and knowledge capital within the local research base, including through:</p> <ul style="list-style-type: none"> • supporting Queen’s University and Ulster University to deliver Year 1 of their action plans for Round 5 of the NI Higher Education Innovation Fund (reportable Nov 2017); • supporting our universities and colleges to undertake a further 113 knowledge exchange projects on behalf of local businesses through the Connected 3 programme (reportable May 2018); and, • securing the required approvals to implement a new round of the Connected programme (subject to the outcome on ongoing evaluation of BCS). 	<p>The approval of a possible Connected 4 programme was approved in May 2018.</p>	<p>Red</p>
<p>6. Develop a terms of reference for a feasibility study to examine options for science funding for Northern Ireland.</p>	<p>Ongoing consideration being given to what this work would entail. Once there is clarity that this action is being retained in Industrial Strategy, further detailed work can commence.</p>	<p>Red</p>
<p>7. Secure funding to assist in the development of Catalyst’s North West Campus in Londonderry in order to enhance Catalyst Inc.’s provision outside of Belfast.</p>		<p>Green</p>
<p>8. Develop a DfE Research Agenda for 2017-21.</p>		<p>Green</p>
<p>9. Complete research projects planned for the 2017-18 year in accordance with the timetable agreed at the outset of each project.</p>		<p>Green</p>

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<p>10. Inform policy development, implementation and evaluation by providing evidence-based information and advice on quality related performance, from level 1 to level 4 and above, in Further Education, Work-based Learning, European Social Fund projects, and Steps to Success employment programmes, measured against appropriate key performance indicators.</p>		<p>Green</p>
<p>11. Lead and manage the FE College InnovateUs programme, via the FE Economic Engagement Working and Employer Support Groups, to deliver 468 InnovateUs projects to meet the innovation skills needs of SMEs.</p>	<p>For 2017-18, a total of 439 InnovateUs projects have been completed and claimed for by the six Colleges. Although slightly below the target of 468, this represents a significant increase since 2016-17 (when 302 projects were completed) and each of the six Colleges delivered more completed projects this year. InnovateUs continues to show a year on year growth in output.</p>	<p>Amber Green</p>
<p>12. Monitor performance against profiled targets relating to innovation and R&D in the ERDF Operational Programme's Performance Framework, reviewing progress and updating the Programme Monitoring Committee as required during the year.</p>		<p>Green</p>
<p>13. Develop business case for future operation of Digital Catapult UK from 2018 onwards.</p>		<p>Green</p>
<p>14. Finalise a future Data Analytics Research operational structure with SIB.</p>		<p>Green</p>
<p>15. Develop a proposal for a New Executive Innovation Fund to support public sector innovation including SBRI and Challenge Prizes.</p>		<p>Green</p>
<p>16. Manage the £1m SBRI Challenge Fund.</p>		<p>Green</p>
<p>17. Secure agreement to the development of a new innovation branding strategy.</p>		<p>Green</p>

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<p>18. Oversee the next phase of the MATRIX work programme, including:</p> <ul style="list-style-type: none"> • development of an Advanced Manufacturing, Materials & Engineering (AMME) Action Plan to deliver against the November 2016 MATRIX AMME Report Recommendations; • production of an options paper for the review and refresh of the MATRIX Panel; • production of a paper on gender imbalance in the STEM sectors; • development of an R&D & Innovation Data Hub; • production of a scoping study on Northern Ireland's business and academic Artificial Intelligence landscape; and, • production of a study on Creative Technologies in Northern Ireland. 		<p>Green</p>
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Strategic Objective 2 – Enhance education, skills and employability		
ACTIONS	END YEAR POSITION AT 31 MARCH 2018	RAG Status
19. Implement the project target outcomes flowing from the Department's two Higher Education Strategies (Graduating to Success and Access to Success) that are planned for implementation during 2017-18.		Green
20. Increase the proportion of graduates and postgraduates in economically relevant subjects (with an emphasis on narrow STEM) to at least 22% from a baseline of 18% in 2008.		Green
21. Secure Ministerial approval and agree a pilot programme with all local HEIs to improve accessibility to the higher education sector for Disabled Applicants (for introduction in the 2019 intake year).	As Ministerial approval for this proposed pilot programme has not been secured, it is unlikely that the pilot will be introduced in the 2019 intake year.	Red
22. Work with HEFCE and other UK HE Funding Bodies to develop and implement the revised operating model for Higher Education Quality Assessment in 2017-18 and beyond, including through: <ul style="list-style-type: none"> • participating in and reporting on the outcomes of the first round of Annual Provider Reviews; • with HEFCE, publishing guidance and timetable for the 2nd Annual Provider Review process, including quality review visits, where appropriate; • receiving Governing Body assurances from all DfE funded HE providers; and, • representing DfE on the UK Standing Committee on Quality Assessment, including sub-committees and related projects, with attendance at 3 or 4 meetings per annum. 		Green

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23. Introduce postgraduate and part time fee loans for AY 2017-18.		Green
24. Introduce pre-entry guidance for all Training for Success participants.		Green
25. Provide impartial, high quality careers guidance, underpinned by reliable labour market information, to at least 95% of pupils in their final year of compulsory schooling.		Green
26. Provide impartial, high quality careers guidance, underpinned by reliable labour market information, to at least 12,000 adults.		Green
27. Together with DE, deliver the 2017-18 actions as agreed in the joint careers strategy Preparing for Success 2015-2020.		Green
28. Progress a portfolio of major capital investments in the college estate across the sector and put formal governance arrangements in place to oversee and manage each project.		Green
29. Monitor progress of the eight projects that fall under year 2 of the FE Means Success Programme against the published Implementation Plan, including risk and issue management, stakeholder engagement, provision of an effective Programme Management Office and managing interdependencies and interfaces with other programmes, strategies and the further education sector.		Green
30. Prepare, deliver and gain approval for the Systems, Technology & Services (STS) business case.		Green

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<p>31. Review/revise and standardise curriculum across further education colleges to align with the Industrial Strategy.</p>	<p>Consultation will be published in May 2018, therefore, DfE need to ensure liaison with DfE (Department for Education, England) is maintained and the latter have indicated they are keen to hold tri-national meeting with Wales & NI to ensure devolved administration concerns re availability of T Levels (technical levels) beyond England is addressed.</p>	<p>Red</p>
<p>32. Deliver Departmental commitments in respect of Syrian Refugee Relocation Scheme, including:</p> <ul style="list-style-type: none"> • finalising memorandum of understanding with The Executive Office; • ensuring colleges have effective ESOL provision including pre-entry level; • setting up processes for the drawing down of funding to support learners and ensuring Service Level Agreement is in place with the lead further education college to manage and co-ordinate funding. 	<p>SLA due to be signed in coming weeks - all other processes are in place.</p>	<p>Amber Green</p>
<p>33. Progress the implementation of a digital Personal Learning Record and Unique Learner Number in Northern Ireland by:</p> <ul style="list-style-type: none"> • developing a Business Case for beta development phase; and, • agreeing the technical solution for data transfer and security between Learner Record System and digital Personal Learning Record. 	<p>Digital Transformation Services (DTS) who are responsible for NICS digital platforms have been renegotiating with service providers and absence of clarity re costs has resulted in DTS being delayed in providing definite costs for business case and timeline for implementation.</p>	<p>Red</p>
<p>34. Develop 14 – 19 Strategy in conjunction with the Department of Education which will provide clarification around scope, identification of resource to deliver, governance arrangements and project management data collection.</p>		<p>Green</p>

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<p>35. Complete and evaluate Essential Skills 16-17 pilot project Essential Skills in Schools, including:</p> <ul style="list-style-type: none"> • considering the impact of the Department of Education’s new GCSEs in English and Maths and ensuring that the reporting of functionality within the new GCSEs meets the needs of learners at FE; and, • consideration of policy implications. 		Green
<p>36. Take forward the Apprenticeships and Youth training Strategies through implementation of 2017-18 commitments, including:</p> <ul style="list-style-type: none"> • implementing a programme of Higher Level Apprenticeships (HLA) at level 4 & 5 delivered through FE Colleges; • putting in place advisory arrangements to ensure the system of Apprenticeships and Youth Training continues to be employer led and meets the needs of the wider economy; • establishing 10 Sectoral Partnerships to advise on Apprenticeship and Youth Training Provision to ensure it reflects employers’ requirements and skills needs; and, • establishing a curriculum development and review process for Level 2 and 3 provision in support of the Apprenticeship and Youth Training Strategies. 		Green
<p>37. Introduce the new contracts for Training for Success (TFS) and Apprenticeships NI (Apps NI).</p>		Green
<p>38. Launch high quality programmes under Peace IV Children and Young People Priority 2.1 Programme.</p>		Green

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<p>39. Establish, facilitate, and establish a Strategic Action Plan, for the Strategic Oversight Group to drive a strategic and cohesive approach to the skills agenda as detailed in the draft Industrial Strategy and the draft PfG.</p>	<p>The action was not completed. Due to competing priorities, which were largely Brexit-related, it was not possible to meet the target date. Appropriate structures are now in place. A new Skills Strategy Division has been set up and a Grade 5 has now been appointed to take this forward.</p>	<p>Red</p>
<p>40. Secure endorsement for a strategic review of the skills landscape and report on the information gathering phase of the project, with a view to informing a refreshed Skills Strategy system from 2020.</p>	<p>The action was not completed. Due to competing priorities, which were largely Brexit-related, it was not possible to meet the target date. Appropriate structures are now in place. A new Skills Strategy Division has been set up and a Grade 5 has now been appointed to take this forward.</p>	<p>Red</p>
<p>41. Develop an economic social inclusion framework in line with Programme for Government.</p>	<p>The action was not completed. Due to competing priorities, which were largely Brexit-related, it was not possible to meet the target date. Appropriate structures are now in place. A new Skills Strategy Division has been set up and a Grade 5 has now been appointed to take this forward.</p>	<p>Red</p>
<p>42. Develop a Priorities and Action Plan for implementing the recommendations of the Pathways to Success Strategy Evaluation Report.</p>	<p>The action was not completed. Due to competing priorities, which were largely Brexit-related, it was not possible to meet the target date. Appropriate structures are now in place. A new Skills Strategy Division has been set up and a Grade 5 has now been appointed to take this forward.</p>	<p>Red</p>
<p>43. Develop a Departmental policy for up to Level 1 provision.</p>	<p>The action was not completed. Due to competing priorities, which were largely Brexit-related, it was not possible to meet the target date. Appropriate structures are now in place. A new Skills Strategy Division has been set up and a Grade 5 has now been appointed to take this forward.</p>	<p>Red</p>
<p>44. Lead and manage the FE College Skills Focus programme, via the FE Economic Engagement Working and Employer Support Groups, to deliver 1,600 Level 2 (and above) qualifications to meet the skills needs of SMEs.</p>		<p>Green</p>

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<p>45. Develop and deliver, in collaboration with new and existing foreign direct investors and indigenous companies, up to 10 Academy projects, which will assist Invest NI in the promotion of 833 jobs.</p>		<p>Green</p>
<p>46. Identify a baseline of existing digital skills and establish a system to monitor and report on strengthening the current and future talent pool of digital skills.</p>	<p>Contact has been made with a number of partners. The definition of the project requires additional exploration. Delivery of future skills academies have supported the strengthening of the talent pool of digital skills.</p>	<p>Amber</p>
<p>47. Manage the Bridge to Employment Programme, in conjunction with Invest NI GATE programme, to deliver 80% of Bridge to Employment trainees into employment.</p>		<p>Green</p>
<p>48. Monitor performance against profiled targets relating to unemployed, economically inactive and employed participants in the ESF Operational Programme's Performance Framework, reviewing progress and updating the Programme Monitoring Committee as required during the year.</p>		<p>Green</p>

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Strategic Objective 3 – Drive inclusive, sustainable growth		
ACTIONS	END YEAR POSITION AT 31 MARCH 2018	RAG Status
49. In partnership with local government, implement and deliver a new programme for business start-up support, known as the Northern Ireland Business Start Up Programme.		Green
50. Engage with relevant stakeholders, including Department of Finance, Invest NI, British Business Bank and Devolved Administrations, to seek to identify a baseline and establish a system to monitor and report on the uptake of both bank and non-bank finance among Northern Ireland SMEs.	A joint DfE/ Invest NI action plan for the NIAO report has been developed and this will be kept under review and updated as and when appropriate. It was also agreed that a review of the wider finance environment would be included in the Terms of Reference for the evaluation of Invest NI's Fund of Funds later in 2018.	Amber Green
51. Work with Department for Communities and Invest NI to put in place a refreshed Social Enterprise Hubs programme, subject to Ministerial approval and budget provision.	DfC/DfE/Invest NI delegation has now completed a round of engagement with all local councils to outline the way forward. Further progress on this programme will be subject to securing Ministerial approval and budget support.	Amber
52. Monitor performance against profiled targets relating to companies engaged in R&D and SMEs classed as high growth in the ERDF Operational Programme's Performance Framework, reviewing progress and updating the Programme Monitoring Committee as required during the year.		Green
53. Develop a final Industrial Strategy including a response to the Industrial Strategy consultation and put in place a monitoring process.	Development of a final Industrial Strategy has been delayed due to the current political situation. However, the department continues to prepare for development of final Strategy including preparation of Pillar Delivery Plans, engagement with ALBs and other partner organisations, assessment of revised milestones and ensuring alignment with the UK Industrial Strategy White Paper.	Amber

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Strategic Objective 4 – Succeeding in global markets		
ACTIONS	END YEAR POSITION AT 31 MARCH 2018	RAG Status
<p>54. Take forward the preparations for the transfer of responsibility for Corporation Tax rate setting powers to the NI Assembly in order to maximise the benefits in an affordable manner, to include:</p> <ul style="list-style-type: none"> • setting in place a database to enable future monitoring through linking available business data; • supporting HMT and DoF as required for the introduction of the new NI Corporation Tax regime; and, • undertaking and publishing key research projects supporting the planning for the reduction in Corporation Tax during 2017-18. 	<p>Preparations continued at official level in the absence of an Executive, however, a number of key issues could not be fully resolved without formal Ministerial and Executive agreement, meaning the conditions for implementation were not in place to allow for the proposed implementation date of April 2018.</p>	Red
<p>55. Develop and Publish a Tourism Strategy to 2025 for Northern Ireland to increase visitor numbers and revenue.</p>	<p>Action not completed due to lack of Minister. Consideration is being given to extending the draft Tourism Strategy period to 2030 - this would align the Tourism Strategy to the Draft Industrial Strategy – ‘Economy 2030’ timeframe. The new Strategy will set the future direction for tourism within the context of this refocused NI Industrial Strategy for Northern Ireland.</p>	Red
<p>56. Work with Irish Rugby Football Union (IRFU) and Department of Transport, Tourism and Sport, Ireland to develop and submit an effective bid to host the Rugby World Cup 2023.</p>		Green
<p>57. Develop thorough objective analyses on EU exit issues and evidence based policy options to support EU exit negotiations.</p>		Green

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<p>58. Provide analytical support in order to prepare for and inform the shape of EU Exit through a programme of research and analysis on migration and trade related issues.</p>	<p>Programme of analysis and research in place around migration, the Common Travel Area and trade and continue to work closely with other analysts. Much progress has been made in terms of delivering upon that programme. New section on DfE web-site developed around EU Exit research and 4 papers on CTA and migration published to date by DfE.</p>	<p>Amber Green</p>
<p>59. Establish a forum to engage with relevant stakeholders including airports, Invest NI and Tourism Ireland to inform development of a strategic approach to air access support in Northern Ireland.</p>	<p>Research project initiated to gather evidence to underpin a strategic approach to air connectivity in NI. Project will include stakeholder engagement process including TIL/INI and airports etc. In parallel officials continue to liaise with counterparts in all three airports in relation to air connectivity.</p>	<p>Amber Green</p>
<p>60. Progress the development of an industry-led Agri-Food Marketing body, including the development of a supporting business case in co-operation with DAERA, Invest NI and industry representatives.</p>		<p>Green</p>
<p>61. Through the Export Matters Forum:</p> <ul style="list-style-type: none"> • produce an annual statement on performance; • provide a clear 'road map' to exporters of the support available; and, • agree an appropriate online site to promote the Export 'Support Escalator' which will be embedded with export support information from all providers. 		<p>Green</p>
<p>62. Through participation in Interreg 'Inside Out' project:</p> <ul style="list-style-type: none"> • carry out a regional diagnosis of export support and report to Interreg meeting; • arrange for stakeholders to attend 2 regional study visits; and, • arrange an Interreg study visit in Belfast. 		<p>Green</p>

Strategic Objective 5 – Building the best economic infrastructure		
ACTIONS	END YEAR POSITION AT 31 MARCH 2018	RAG Status
63. Support, as a Project Partner, the refurbishment and development of HMS Caroline as a heritage visitor attraction in Titanic Quarter.	Refurbishment works to the Pump House Blocks 1-3 and landscaping works to the Alexandra Dock, with the exception of minor tidy up elements, completed on 27 March 2018. Blocks 1-3 of the Pump House opened as HMS Caroline's visitor centre.	Amber Green
64. Increase the number of premises with access to superfast broadband services by 28,000.		Green
65. Issue for public consultation a draft digital infrastructure strategy paper.	No progress reported to date due to competing priorities and limited resources. The potential to incorporate the Digital Infrastructure Strategy into a wider NI Digital Strategy is being explored with Strategic Policy Division.	Red
66. Issue for public consultation a draft NI energy strategy paper.	Target has not been met. The ongoing absence of a Minister, meant that work could not progress beyond the extensive preparatory work carried out by Energy Strategy Branch. Work is now progressing to produce a new draft energy strategy for an incoming Minister.	Red
67. Working with the Northern Ireland Authority for Utility Regulation (NIAUR) and the NI System Operator (SONI), develop a plan for delivery of security of electricity supply post 2020.		Green
68. Secure State-aid approval for the Integrated Single Electricity Market (I-SEM) capacity remuneration mechanism.		Green
69. Support commencement of works to deliver the main inter-town pipelines for the 7 remaining towns in the Gas to the West project.		Green

Strategic Objective 6 – Deliver a regulatory environment that optimises economic opportunities for business and commerce, while also protecting consumers and workers		
ACTIONS	END YEAR POSITION AT 31 MARCH 2018	RAG Status
70. Maintain and update the employment relations framework of legislation and scrutinise all employment legislation for implications in respect of EU exit.		Green
71. Develop the technical specification for a new case management system and a facility for the online preparation, sending/receipt, and data capture of claim and response forms for the Office of the Industrial Tribunal and Fair Employment Tribunal to support employees and employers using the tribunal system.		Green
72. Undertake a review of funding that supports the delivery, by third party organisations, of employment rights and relations support services.	Due to the absence of a Minister, staff changes and vacancies in branch throughout 2017-18 it was not possible to conduct the review as fully as intended. An internal review was completed which considered current arrangements and risks and impacts associated with cessation and/or change of funding in the absence of a Minister. A review of content of business case and letter of offer for 2018-19 has also been undertaken.	Amber
73. Develop, and deliver, on a risk based programme of inspections of employment agencies and businesses.		Green
74. Deliver an efficient and effective Redundancy Payments Service in line with PfG outcomes through administration of the Statutory Redundancy Guarantee Scheme from the NI National Insurance Fund.		Green

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75. Maintain the bodies of business, consumer protection, mutuals and health & safety legislation for which we are responsible, especially in the light of EU exit.		Green
76. Deliver an efficient and effective Trading Standards Service in Northern Ireland and ensure that specific consumer protection legislation is in place and implemented to reduce consumer detriment.		Green
77. Maintain the Registry of Credit Unions and Industrial & Provident Societies; and complete the transfer of the Registry to the Financial Conduct Authority.	The Registry was maintained until this date. The CUIPS Registry to be transferred to the Financial Conduct Authority on 6 April 2018 (HMT legal decision).	Amber Green
78. Review the relationship between Chartered Accountants Ireland and DfE by developing a Service Level Agreement and approve bye-laws on behalf of Crown.	Amendments to Bye-laws proposed by Chartered Accountants Ireland processed and approved within timescales by DfE. SLA was developed and agreed in principle with Chartered Accountants Ireland before year end. However, the department was advised by Chartered Accountants Ireland of a new project to review its legislative basis, thus throwing the rationale for an SLA into doubt. This issue will be wrapped up in departmental work on the broader legislative review in 18-19. This is currently underway.	Red
79. Develop an implementation programme for the Better Regulation Action Plan.	Action Plan implementation suspended due to lack of resource.	Red
80. Provide advice and assistance to all Northern Ireland departments and public authorities on the European Commission's State Aid rules (except for matters relating to agriculture and transport) and act as the lead department in Northern Ireland for all policy matters relating to State Aid rules.		Green
81. Carry out a public consultation on the policy proposals for an Insolvency Bill and have the outcome published on the Department's website.	A policy consultation has been ready since February 2017 but, with no Assembly in place, no progress has been made in 2017-18.	Red

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82. Complete the examination of all high priority company and bankruptcy cases emerging during the year within statutory time frames to allow consideration of disqualification or bankruptcy restriction proceedings.		Green
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Strategic Objective 7 – Ensure the Department has effective governance and manages its resources, both financial and staff		
ACTIONS	END YEAR POSITION AT 31 MARCH 2018	RAG Status
83. Ensure that Provisional Non Ring-fenced Outturn for each of Capital and Resource is at least 99%, but does not exceed 100%, of the Final Budget.	Non Ring-fenced Resource DEL 99.5% of Final Plan Non Ring-fenced Capital DEL 98.1% of Final Plan	Amber
84. Draw up a Departmental Procurement Plan to provide appropriate visibility of forthcoming procurement needs and manage the delivery of that plan in line with legal and other requirements.		Green
85. Deliver annual report and accounts within the faster closing timetable, to be laid before NI Assembly pre-summer recess.		Green
86. Develop a project plan to prepare for the implementation of NICS Review of the Financial Process		Green
87. Develop the DfE input to the new Programme for Government and manage the process to embed this in the department's policy frameworks.		Green
88. Construct agreed Departmental rolling programme of evaluations, review implementation and monitor progress.	Initial draft rolling programme in place with one outstanding update from Youth Policy Division to be included.	Amber Green
89. Provide a core statistical service to the Department and its customers, including the publication of all National and Official Statistics releases on pre-announced publication dates.		Green

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<p>90. Establish legal gateways for data sharing and develop a concordat between stakeholders in support of the creation of a Longitudinal Education Outcomes Study for Northern Ireland.</p>	<p>The legal gateway required for data linkage is the Digital Economy Act. In the absence of an Executive, it was not possible for this to be implemented during 2017-18. However, the Secretary of State has now commenced the NI Digital Economy Act for statistical and research purposes with effect from 1 May 2018. Work on the Longitudinal Education Outcomes database can now be started during 2018-19.</p>	<p>Amber</p>
<p>91. Provide analytical support for the development and delivery of the PfG and Industrial Strategy, including development and monitoring of indicators and targets.</p>		<p>Green</p>
<p>92. Implement the 2017-18 elements of the Departmental Digital Action Plan which focuses on the provisioning of effective on-line digital services to the departments customers.</p>		<p>Green</p>
<p>93. Formulate and implement an action plan that will enable the Department to be fully prepared for the introduction of the EU General Data Protection Regulation which is due to come into force on the 25 May 2018.</p>		<p>Green</p>
<p>94. Support the work of the RHI Public Inquiry, including requests for information and access to historic records.</p>		<p>Green</p>
<p>95. Carry out a pilot programme of inspecting RHI Installations, and then use the outputs from the pilot to inform the way forward.</p>	<p>Pilot site inspections completed. Continued analysis of findings from inspection reports including completion of final draft of Overview Report. Outputs from Overview Report supported development of Phase 2 of Inspections programme, with Procurement competition published on EC Official Journal at end March 2018.</p>	<p>Amber</p>

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<p>96. Develop a mechanism for long-term cost controls for the non-domestic RHI Scheme, following from the site inspections and tariff review.</p>	<p>Judicial Review of 2017 Regulations and subsequent appeal of the Court's decision in favour of the Department, along with the difficulties in getting an independent party to conduct a tariff review meant that a long-term solution was not put in place by end March 2018. The 2017 Regulations were extended for further 12 months to 31 March 2019 to allow additional time to develop long-term solution.</p>	<p>Amber</p>
<p>97. Oversee and promote good governance and robust accountability arrangements across all of the Department's Sponsored Bodies, including through:</p> <ul style="list-style-type: none"> • ensuring adherence to Management Statements/ Financial Memoranda (MSFMs) or equivalent documents; • approval of business plans; and, • review of bi-annual assurance statements; and oversight and liaison meetings. 		<p>Green</p>
<p>98. Develop a Sponsorship Manual to clearly outline the roles and responsibilities of Sponsor Teams within the Department.</p>		<p>Green</p>
<p>99. Finalise the Department's Equality Scheme, Disability Action Plan and Audit of Inequalities & Action Plan for the period 2016-21.</p>	<p>Action not complete due to lack of Minister. The Permanent Secretary gave approval in February 2018 to proceed to the consultation stage on the draft documents.</p>	<p>Red</p>
<p>100. Meet the regulatory expenditure (N+3) target of €38.946m for the ERDF programme and thereby maximise the EU funding allocation.</p>		<p>Green</p>
<p>101. Meet the regulatory expenditure (N+3) target of €25.963m for the ESF programme and thereby maximise the EU funding allocation.</p>		<p>Green</p>
<p>102. Complete award of ESF programme allocation through administration of an open competitive 2nd Call for suitable projects.</p>		<p>Green</p>

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<p>103. Secure EC approval for Programme modification that will allow the funding under the 'Low Carbon' priority and thereby meet mandatory financial requirements.</p>		Green
<p>104. Assist the EC to close the 2007-2013 ERDF and ESF programmes in line with regulatory requirements.</p>		Green
<p>105. Implement robustly sick absence policies with a view to:</p> <ul style="list-style-type: none"> • recording 85% of absences on first day of absence and first day of return; and, • completing 85% of return to work interviews within 2 days of return to work. 	<p>Figures no longer available - the NICS focus has changed to certification compliance (alongside Return to Work compliance) – targets will be rephrased for 2018-2019 plan.</p> <p>Average at year end is 61% RTW completed within 2 days of return.</p>	Red
<p>106. Implement NICS Performance Management System, with a view to:</p> <ul style="list-style-type: none"> • completing at least 90% of 2016-17 End Year Reviews by 30 June 2016; • completing at least 90% of PPA/PDPs for 2017-18 by 30 June 2017; and, • completing all In Year Reviews for 2017-18 by 31 October 2017. 	<p>End Year Review Figure at 4 April 2018 is 91% but June 17 target not met as figure then was 87%.</p> <p>PPA figure corresponds to IYR figure below (75%).</p> <p>In Year Review at 75% by 31 October.</p>	Red

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Key Performance Measures

The actions/commitments outlined under objectives 1-5 of the Business Plan were all designed to help to bring about improvements in a range of performance measures (indicators) identified in the draft Programme for Government and Industrial Strategy. While data for the 2017-18 period is not yet available for any of these indicators, the most recent performance data available is presented in the tables below. The Department will continue to monitor performance against these indicators in future years.

Strategic Objective - 1 Accelerate Innovation and Research		
Indicator	Description	Performance
Rate of Innovation Activity	% of companies engaging in innovation activity.	Latest data is 2012-2014 which shows that 45% of firms engage in innovation activity.
UK Regional Innovation Ranking	NI Innovation Survey is subset of UK wide Innovation survey based on proportion of innovative firms for the 12 UK regions.	NI Innovation ranking remains unchanged at 11 th out of the 12 UK regions from 2012-2014 to 2014-2016 (40% of NI firms are actively engaged in innovation).
Northern Ireland Research and Development Survey	Total expenditure on Research and Development in Northern Ireland.	Total expenditure on R&D in NI in cash terms was £739.3m in 2016. There was a decrease of £9.4m (1.3%) in cash terms in NI total R&D expenditure between 2015 and 2016. However, since 2014, total R&D spending in cash terms in NI has risen by £133.5m (22%), and by 30.3% (£171.8m) since 2011.
Knowledge Economy Jobs	Supports direct, indirect and induced jobs locally.	NI is the second fastest growing Knowledge Economy across the UK, yet Knowledge Economy Activity remains 20% below the UK average.
Business Start Up rates	The number of new businesses formed in NI.	In 2016, 5,935 new businesses were formed in NI, an increase of 495 enterprises compared to the previous year.

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Strategic Objective 2 - Enhance Education, Skills and Employability		
Indicator	Description	Performance
Economic Inactivity Rate excluding students	The economic inactivity rate excluding students from NISRA's Labour Force Survey.	Latest figures show that the inactivity rate excluding students has remained relatively unchanged from 2015 to 2016, standing at 19.3%.
Proportion of Workforce in Employment qualified to level 1 and above, level 2 and above, level 3 and above and level 4 above	Proportion of Workforce in Employment qualified to level 1 and above, level 2 and above, level 3 and above and level 4 above according to NISRA's Labour Force Survey.	Proportions of the employed workforce qualified remain unchanged in 2016 from the previous year. Level 1 and above - 89% Level 2 and above - 77% Level 3 and above - 61% Level 4 and above - 38%
Proportion of local graduates from local institutions in professional or management occupations or further study six months after graduation	Percentage of local graduates employed in professional/ management jobs or enrolled in further study 6 months after graduation.	A positive change in this indicator for 2015-16 at 62.2% relative to the previous year of 60.8%.
Proportion of graduates qualifying from NI Higher Education Institutions with an economically relevant STEM qualification	The number of students graduating from Northern Ireland Higher Education Institutions with Narrow STEM qualifications, as a percentage of overall qualifiers.	3,730 students in 2016-17 graduated with Narrow STEM qualifications, an increase of 2.5% relative to the previous academic year. This accounted for 23.1% of total qualifiers in 2016-17 compared to 22.8% in 2015-16.

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Strategic Objective 3 – Drive Inclusive, Sustainable Growth		
Indicator	Description	Performance
Employment Rate by Council Area	Employment rates in Local Council Areas.	Rates remain mostly unchanged in 2016 relative to 2015. Lisburn and Castlereagh had the highest rate (75.3%) while Derry City and Strabane had the lowest rate (54.7%), compared to an overall NI average of 69.3%.
Employment rate of 16-64 year olds by deprivation quintile	Employment rates of working age individuals by multiple deprivation quintiles.	Rates have remained relatively unchanged in 2016 compared to 2015. The employment rate varied from 58.5% in the most deprived quintile to 77.5% in the least deprived quintile.
Seasonally Adjusted Employment Rate (16-64)	Results for seasonally adjusted employment rates for NI.	Rate has not changed substantially (68.4% in 2015 compared to 69.3% in 2016).
Jobs promoted via business start programme	RSI target of jobs promoted via the business start programme.	Over the 2016-17 period all councils have exceeded the RSI target. In total, 2,290 jobs were promoted against a target of 1625.
Annual Turnover of Businesses	Total turnover of NI businesses.	According to the latest Annual Business Inquiry the total turnover of NI businesses in 2016 was £68.9bn, an increase of 2.7% from 2015.
Total Early Stage Entrepreneurial Activity Rate	Northern Ireland's Total Early Stage Entrepreneurial Activity Rate according to the Global Entrepreneurship Monitor.	Rate was 6.3% in 2016, an increase from the previous year however there has been relatively little sustained change in this Indicator over time.

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Strategic Objective 4 – Succeeding in Global Markets		
Indicator	Description	Performance
External Sales	External sales to markets outside Northern Ireland.	According to NI latest Broad Economy Sales and Exports Statistics (BESES) results, external sales to markets outside Northern Ireland rose by £1.0 billion (4.2%) to £24.1 billion in 2016.
Total External Spend by Visitors	Expenditure by external visitors in Northern Ireland.	Expenditure stood at £614 million in 2016, relatively unchanged from 2015 (£545m).
Nation Brand Index	Northern Ireland's score on the GfK Nation Brand Index.	On a scale of 1 to 100 Northern Ireland's score was 59.01 in 2017, an increase of 1.08 from the previous year representing a positive change in this indicator of success.
Broad Economy Exports measure	Broad Economy Exports measure for NI.	Exports from NI in 2016 were valued at £10.1 billion, a 7.3% increase from the previous year and an increase of 11% compared to 2011.

Strategic Objective 5 – Building the Best Economic Infrastructure		
Indicator	Description	Performance
Proportion of premises with access to broadband services at speeds at or above 30 Mbps	Proportion of premises in Northern Ireland with access to superfast broadband.	The proportion in Northern Ireland was 85% in 2017, an improvement of 2 percentage points from 2016. This represents a positive change in this indicator of success.

Link between Performance Indicators, Risk and Uncertainty

The above performance indicators are ‘population level’ indicators, relating to the population of Northern Ireland, and it must be acknowledged that the work of the Department is not the only influencing factor on their movements. A wide range of organisations – including other Departments, the Department’s Sponsored Bodies, local Councils, and Voluntary and Community organisations – undertake important work to drive improvements in these areas, and during the year the Department has sought to capture the main contributions of all delivery partners in coherent Delivery Plans for each Objective.

These indicators can also be heavily influenced by wider external developments, risks and uncertainties, many of which lie largely outside of the Department’s control. The UK’s departure from the European Union, for example, has created a raft of uncertainties which could have significant implications for many of the indicators. Significant risks to performance against these indicators are identified and, where possible, managed as part of the Department’s risk management processes.

Information on Social Matters, Anti-Corruption and Anti-Bribery

Rural Needs

The Rural Needs (NI) Act 2016 introduced a new statutory duty on Northern Ireland departments, district councils and other specified public bodies to have due regard to rural needs when developing, adopting, implementing or revising policies, strategies and plans and when designing and delivering public services.

The Act became operational for government Departments and district councils from 1 June 2017 and covers two main duties. The first is a duty to have due regard to rural needs (referred to as the ‘due regard duty’) and the second relates to monitoring and reporting on how the due regard duty has been exercised. The latter duty requires that public authorities publish this information in their annual reports, and provide a copy of this information to the Department of Agriculture, Environment and Rural Affairs (DAERA) on an annual basis.

The Department has due regard to rural needs when undertaking new or revised policies/activities by subjecting them to rural needs impact assessments, in accordance with guidance issued by DAERA. Between 1 June 2017 and 31 March 2018 the following policies were subject to a rural needs impact assessment:

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Description of the activity undertaken by the public authority which is subject to section 1(1) of the Rural Needs Act (NI) 2016	The Rural policy area(s) which the activity relates to	Describe how the public authority has had due regard to rural needs when developing, adopting, implementing or reviewing the policy, strategy or plan or when designing or delivering the public service
The non-domestic Renewable Heat Incentive Scheme	The continuation of interim cost control measures introduced in 2017 relates to rural businesses.	The RHI Taskforce undertook a Rural Needs Impact Assessment as part of the passage of legislation required to allow the continuation of the interim cost control measures introduced in 2017 for a further 12 month period to 31 March 2019 to enable development of longer term policy.

Anti-corruption and Anti-bribery

The Department adheres to and promotes good practice guidance on anti-corruption and anti-bribery matters through a range of measures, many of which are covered in more detail in the Governance Statement (e.g. anti-fraud and whistleblowing arrangements).

During the year the Northern Ireland Audit Office (NIAO) issued a good practice guide on managing the risk of bribery and corruption. This guidance was issued to all Heads of Branches within the Department in November 2017 by way of a Governance and Accountability Notice.

The Department's Gifts and Hospitality guidance is also a key control in place to mitigate against corruption and bribery. This guidance outlines the types of instances in which it is, and is not, appropriate for staff to accept or offer gifts and hospitality as part of their official duties. All Divisions are required to maintain registers of gifts and hospitality which are monitored and published on an annual basis on the Department's website.

Sustainability Reporting/ Environmental Matters

Corporate Social Responsibility

DfE supports and promotes Employer Supported Volunteering (ESV) by engaging in Corporate Social Responsibility programmes, which enable staff to volunteer for the benefit of the community, charities and environment. Volunteering is undertaken freely and without concern for financial gain. The volunteering plays an important role in building strong and shared community, brings benefits to individuals and communities and contributes economical and socially to a more cohesive society. It also impacts on the delivery of many Government initiatives across a wide range of policy areas.

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In 2017-18, formal paid membership of the Northern Ireland Cares Programme run by Business in the Community (BiTC) has allowed the Department to avail of 3 team volunteering challenges for groups of 15 staff or more per annum.

Working with BiTC has also allowed the Department to take part in specific volunteering initiatives such as Time to Read (spending time with schoolchildren assisting them with reading skills at an early age) and Get Online (assisting adults with acquired brain injuries and those receiving housing, care and support to access the Internet).

The Department has also worked with Volunteer NOW, an organisation which brought volunteering challenges to our premises, allowing staff to volunteer in one hour sessions for up to half a day. Tasks included working to produce Marie Curie daffodil badges, cutting out stamps for RSPB, packing sunflower seeds for SunFlower Fest and pricing jewellery for Oxfam.

Energy Management

A part of the premises management role is to encourage staff to conserve energy when there are opportunities to do so. Energy audits are regularly conducted in main DfE buildings.

The findings of audits conducted in Adelaide House and Netherleigh in July 2017 and November 2017 were publicised to all staff via the Intranet with a message on the need to take simple measures to help reduce our energy consumption and energy costs.

Carbon Reduction Commitment (CRC)

The Department contributes to the CRC Energy Efficiency Scheme which is a mandatory UK scheme aimed at improving energy efficiency and cutting carbon dioxide (CO₂) emissions in large public and private sector organisations.

The Department orders and pays for allowances to cover annual CRC emissions in tonnes of carbon dioxide.

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Statement of Assembly Supply (SOAS)

This is the primary statement that demonstrates the Department's accountability for its spending to the Assembly. It records the net outturn compared with the Estimate in accordance with the Supply Estimates Manual.

		Estimate			Outturn			2017-18 £000	2016-17 £000
Request for Resources	Note	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
A	SOAS1	1,061,792	(74,195)	987,597	984,569	(68,619)	915,950	71,647	1,077,137
Total resources	SOAS2	1,061,792	(74,195)	987,597	984,569	(68,619)	915,950	71,647	1,077,137
Non-operating cost Accruing Resources		-	(95,002)	(95,002)	-	(95,002)	(95,002)	-	(76,371)

Net Resource Outturn

SOAS1 reflects the analysis of Net Resource Outturn by function. This shows outturn by budget category within the Departmental Expenditure Limit (DEL), Annually Managed Expenditure (AME) and Non-Budget. Resource Outturn for 2017-18 was £916m with an allocation of £988m in the Spring Supplementary Estimates (SSE). The difference of £72m arose mainly in respect of:

- Student loan impairments, which are impacted by the increasing value of the loan book together with movements in economic conditions including RPI. New loans issued were lower than forecast for the year, which when combined with updated RPI figures resulted in a saving of £47m; and,
- Grant in aid to Invest NI and Tourism NI, which was lower than expected by £18m in total due to monies received by these bodies from the European Commission.

Year on Year Resource Outturn

Following the restructuring of Northern Ireland Civil Service (NICS) Departments from twelve to nine, the former Department of Enterprise Trade and Investment (DETI) together with functions from the former Department for Employment and Learning (DEL) and certain functions from the former Department of Culture, Arts and Leisure (DCAL) became the new Department for the Economy (DfE) on 9 May 2016. The trend analysis shown on pages 43 to 46 provides an overview of the expenditure during 2017-18 and 2016-17, with detail included at Annex A.

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Resource Outturn for 2017-18 was £916m compared to £1,077m in 2016-17 which represents a reduction of £161m. This can be summarised as follows:

	Outturn 2017-18 £000	Outturn 2016-17 £000	Variance £000	Variance %
DEL	634,599	725,243	(90,644)	(12.5)
AME	(77,269)	(58,804)	(18,465)	(31.4)
Non-Budget	358,620	410,698	(52,078)	(12.7)
Total	915,950	1,077,137	(161,187)	(15.0)

Departmental Expenditure Limit (DEL)

Within DEL, £54.5m of the reduction relates to Higher Education and Student Support.

Student Support includes the Notional Loan Subsidy charge, which reflects the notional cost to the Department of issuing loans to NI students at a subsidised rate in line with Government policy. The cost of the subsidy in 2017-18 was £46.5m lower than 2016-17 at £168.5m. These costs are calculated using a complex financial model and are dependent upon a range of factors including RPI, student earning potential and repayment patterns.

The financial model is known as the Stochastic Earning Path (StEP) financial model, adapted for Northern Ireland. The model uses a wage equation to generate future earning paths for borrowers. The model uses several years of actual graduate earnings histories and data from the Student Loans Company to improve the accuracy of forecasts. The HM Treasury discount rate applied to Student Loans is RPI plus 0.7%, in line with the Government's long term cost of borrowing.

Other reductions within Higher Education and Student Support arose in respect of the timing of Learning and Teaching capital projects, and demand for the means tested Education and Maintenance Allowance.

In Economic Development and Infrastructure, the Renewable Heat Incentive scheme achieved cost reductions of £24.8m as a result of the introduction of new cost control measures.

Other reductions arose within Employment and Skills (£10m), due to reduced demand for training programmes such as Training for Success.

Annually Managed Expenditure (AME)

The main movement in AME relates to the effective interest rate earned on student loans during the year which increased by £18.2m. This is driven by the increasing value of the loan book and the movement in RPI.

Non-Budget

Total spend for the Non-Budget category reduced by £52.1m on 2016-17.

The main component of this category is grant in aid paid to NDPBs in respect of their working capital requirements.

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Invest NI's cash requirement was £43m less than last year due to additional receipts from the European Commission in respect of EU programmes (£15m), timing of payments (£10m) and that the budget allocation for 2017-18 was £18m lower than 2016-17.

Tourism NI's cash requirement was £7m less than last year due to receipts from the European Commission.

Reconciliation of Net Resource Outturn to Net Operating Cost

SOAS2 shows the reconciliation of Net Resource Outturn to Net Operating Cost. Reconciling items included within the Net Operating Cost are Consolidated Fund Extra Receipts £0.1m and Non Supply expenditure £4.8m.

Non Supply expenditure represents payments made in relation to the Redundancy Fund. This fell from £5.4m to £4.8m as a result of the reduction in applications for assistance.

Statement of Financial Position

Student Loans increased by £190.9m to £2,303m. Student Loan movements have included the continued growth in the size of the student loan book, with a further £346m loans issued during the year. Total repayments received and effective interest earned were £90.0m and £96.4m respectively.

Financial Asset Investments reduced by £7.8m to £118.8m reflecting a repayment made by Presbyterian Mutual Society offset against interest charged.

Receivables increased by £13.6m largely due to an increase of £11m in the EU debtor balance as the programme becomes more established.

Payables decreased by £11.8m to £103m at 31 March 2018 mainly due to a reduction in trade payables, because of the timing of capital projects in the HE sector, and accruals, due to the removal of an amount for judicial pension contributions.

Significant Accounting Judgements

Student loans

The Departmental Statement of Financial Position is dominated by the value of the student loan book. This loan book is valued based on anticipated future repayments measured at today's rates.

Student loans are held at amortised cost. This involves the value of the loans issued being discounted to net present value using the effective interest rate method. The effective interest rate for student loans is based on the HMT discount rate. In 2017-18, the discount rate used remained at RPI plus 0.7% in line with the Government's long term cost of borrowing.

The face value of the loan book has increased since last year mainly following the issue of £345.5m of new loans in 2017-18. However, the valuation is impacted by a number of macro-economic assumptions used in our modelling that are reviewed annually. The major risk to student loan repayments arises when there is an economic downturn and a reduction in growth. Where there is a negative impact on earnings growth, the risk is that graduate earnings may not reach the levels predicted when student loans were issued.

This can lengthen the time period before loans are in repayment and extend the repayment period, both of which impact on the carrying value of the loans in the accounts. It can also lead to an increase in the provision for future write offs against loans as it increases the likelihood that some graduates may not repay their loans in full by the end of the loan period.

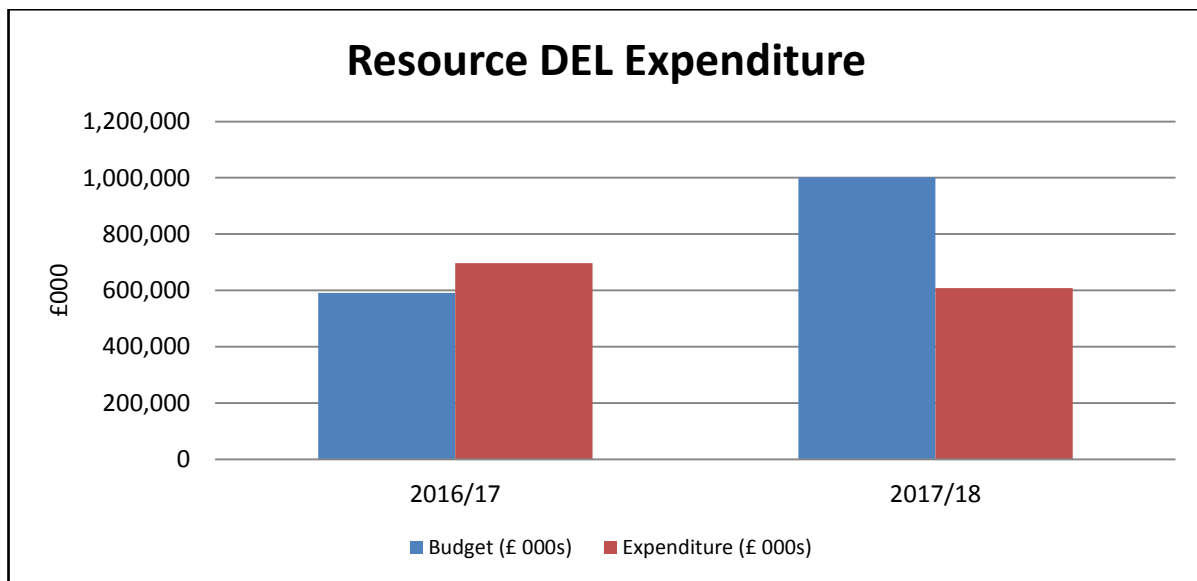
The risk of the Government not recovering the real value of student loans issued is further exacerbated when the Bank of England base rate is low and the rate of inflation is comparatively high, because the base rate cap comes into operation. The cap arises because students are charged interest equivalent to the rate of inflation, or the Bank of England base rate plus 1%, whichever is the lower. As such, when the base rate cap is in operation, interest on loans is charged at a lower rate than inflation. Details of the impairments made to the loan book in this financial year are set out in Note 11 to the Accounts.

Government is continuing to assess how best to manage its holding of current and future loans, including the potential to realise value for the taxpayer from a sale of its portfolio. These accounts present the student loans portfolio valued on the basis that they will continue to be held by the Department until such time as a decision to sell the assets has been made. This is consistent with prior years and reflects the requirements of the Government Financial Reporting Manual. The Department has opted out of previous loan sales and would have the option of doing so again.

Long Term Expenditure Trends

Total Departmental Spend

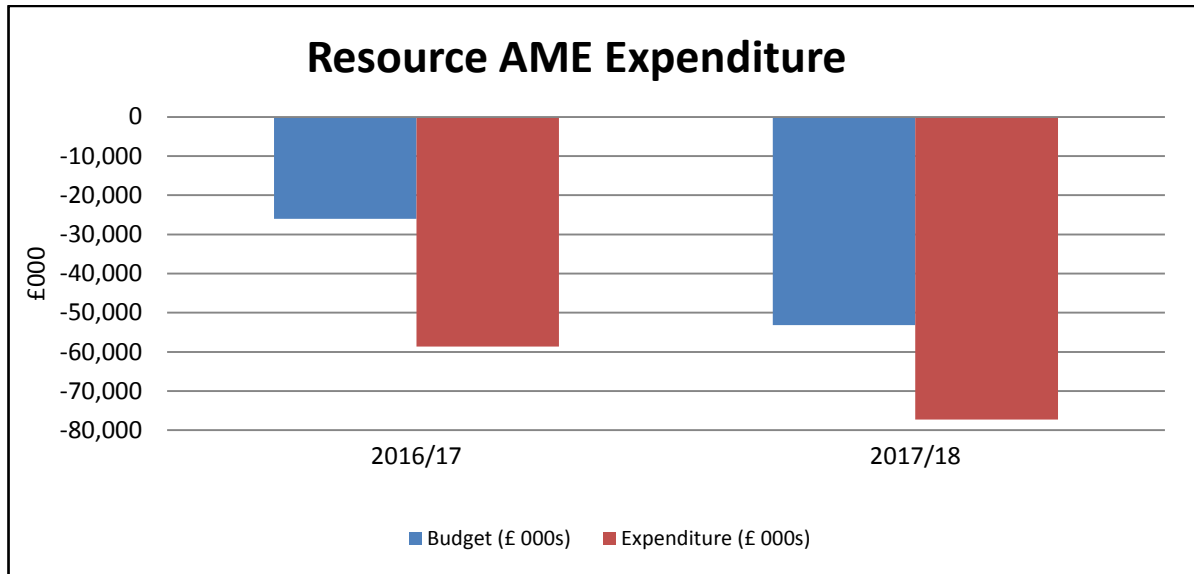
Total departmental spend comprises Resource DEL and Resource AME allocations, together with Capital DEL and Capital AME allocations. The following tables show the expenditure trends arising over the last two years. The underlying data can be found in Table 1 in Annex A. In 2016-17, expenditure exceeded budgets as there were no Spring Supplementary Estimates.



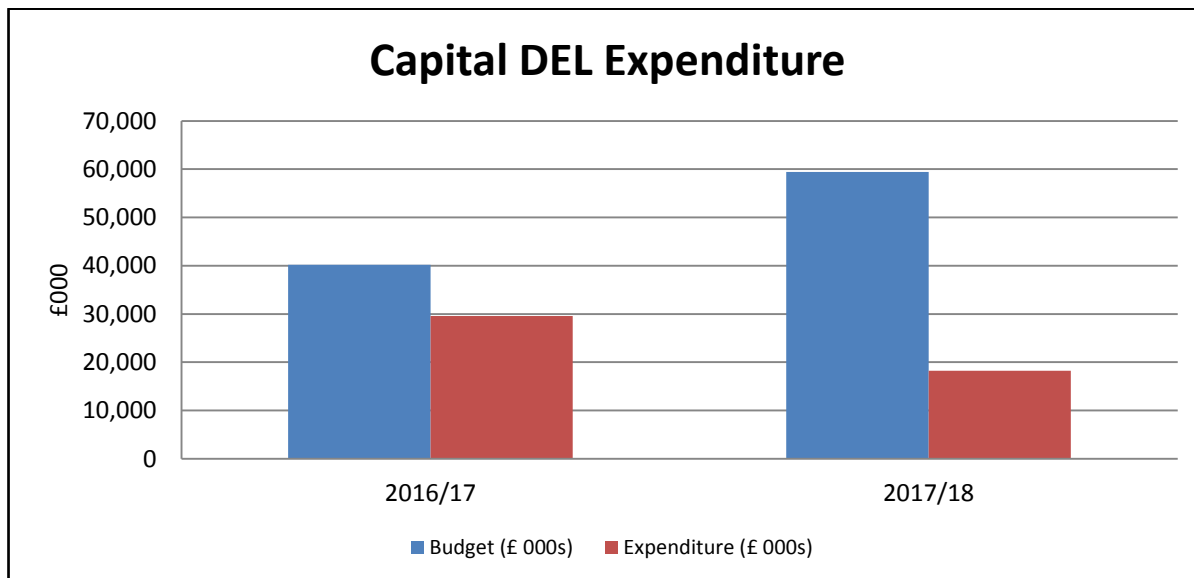
The most significant variations in Resource DEL have arisen in respect of:

- Reduction in the notional cost of subsidising student loans (impairments), mainly due to the movements in RPI; and,
- Reduction in the cost of the Renewable Heat Incentive Scheme, due to revised Non-Domestic tariffs introduced to control costs.

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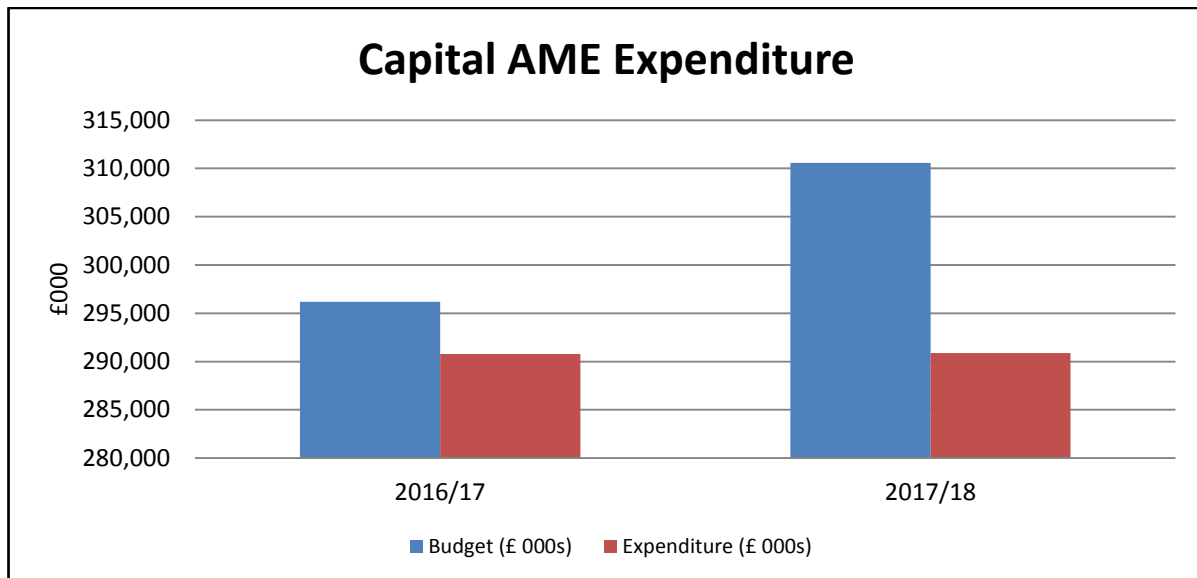


Resource AME Expenditure mainly reflects income in respect of student loans, which means that the net overall total is a credit (negative). Resource AME in 2017-18 was impacted by the increase in the Effective Interest rate on student loans. This is linked to RPI.



Capital DEL spend mainly comprises capital grants to the Higher Education sector, and varies according to the progress of projects funded. The remaining Capital DEL relates to broadband stimulation and the receipt from Presbyterian Mutual Society. It should be noted that 2016-17 includes £3.8m in respect of finance provided under the Financial Transactions Capital (FTC) Scheme.

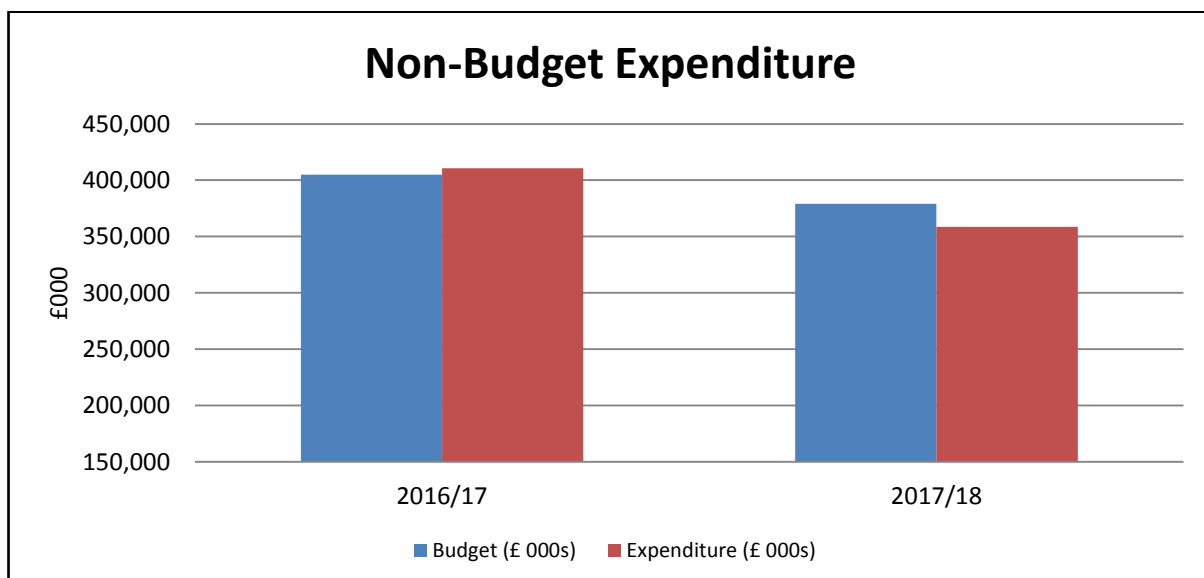
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Capital AME reflects movements in respect of student loans, being new loans issued and repayments received.

Non-Budget Spend

The following table shows the Non-Budget expenditure trends arising over the last two years. The underlying data can be found in Table 2 in Annex A.

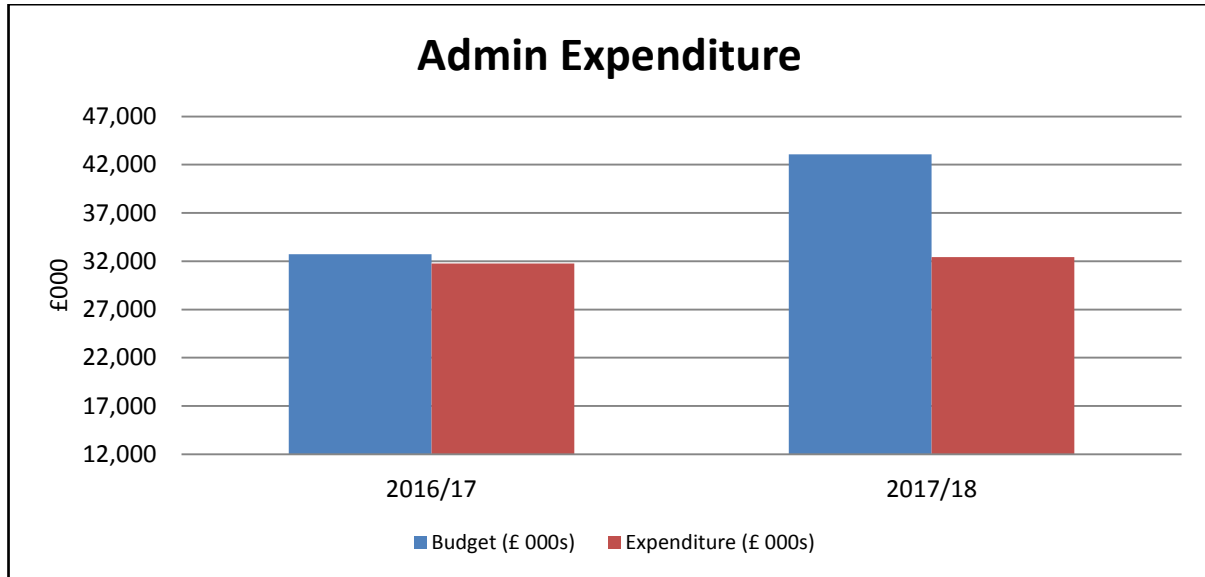


Non-Budget Spend mainly reflects movements in respect of Grant in Aid to Non-Departmental Public Bodies, which varies according to their cash requirements.

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Departmental Administration Spend

The following tables show the trend in Departmental Administration Spend arising over the last two years. The underlying data can be found in Table 3 in Annex A.



Administration spend remains comparable year on year.

Future Developments

Looking ahead, significant areas of activity for the Department include the following:

EU Exit

- Working within the wider confines of the NICS Exit preparations, DfE is taking forward a considerable portfolio of work to inform the shape of, and prepare for, the UK's departure from the European Union. The decision of the UK Government to leave the EU presents an unprecedented set of challenges for the Department.

Business Engagement

- Invest NI's strategic focus remains on delivering their Business Strategy 2017-21; namely supporting local businesses to create jobs, innovate, grow exports and attract new inward investors by:
 1. Supporting and encouraging 30,000 – 40,000 additional jobs;
 2. Increasing business expenditure on R&D by £160m - £200m; and,
 3. Supporting customers to increase their total sales by £3.2bn - £4.2bn, of which £2.4bn - £3.1bn will be sales outside NI, including £0.8bn - £1.2bn of new export sales.
- InterTradeIreland will continue to drive competitiveness, jobs and growth by improving connectivity between businesses and vital resource providers on a cross-border basis through the twin pillars of innovation and trade. The Brexit Advisory Service will continue to be delivered and developed to provide a suite of advice and supports to businesses to assist them prepare for leaving the EU; and,
- Northern Ireland Screen is the lead agency in Northern Ireland for the film, television and gaming sectors with a vision to become the strongest screen industry outside London in the UK and Ireland. From 1 April 2018, the Department's direct sponsorship of Northern Ireland Screen under the Opening Doors 2 Strategy will be a key enabler for development. This funding will be provided through grant in aid, having previously been provided as grant funding from Invest NI.

The Department will:

- Work with employers and Invest NI to provide training to help upskill and re-skill candidates for in demand jobs being created with the Northern Ireland economy; and,
- Take forward a significant research exercise on improving air connectivity, with a view to developing an evidence base to inform a strategic approach to air access in Northern Ireland.

Strategic Policy

- Progress the skills agenda towards the aim of globally competitive economy which works for everyone; and,
- Continue to promote Economic Social Inclusion in line with Programme for Government, the strategic skills agenda and the Draft Industrial Strategy.

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Higher Education

- Progress the Higher Education Strategies for the period to 2020. Ensure delivery of the outcomes and projects identified to achieve the strategic vision for Higher Education and to ensure Higher Education programmes and policies are aligned to the Programme for Government, Industrial Strategy and key Departmental strategic priorities.

Youth Policy

- Deliver the stages of the Apprenticeships and Youth Training Strategies Implementation Programme planned for 2018-19, building on existing provision to offer an employer-led vocational pathway that provides the relevant skills and qualifications that are need to grow the local economy; and,
- Deliver the actions in the Careers Strategy 'Preparing for Success 2015-2020' action plan for 2018-19, to support people of all ages to manage their career development and transition successfully to education, training and employment.

Energy Division and Energy Decarbonisation

- Continue to engage with the Regulatory Authorities in Northern Ireland and the Republic of Ireland and with the Department of Communications, Climate Action and the Environment (DCCA) to progress delivery of the new wholesale electricity market (SEM) by October 2018. The Department will also continue to work with the Northern Ireland Authority for Utility Regulation (NIAUR) and developers to progress the gas network extension projects in both the West and East Down areas of Northern Ireland. Furthermore, DfE will co-ordinate efforts across the public sector to increase the efficient use of energy and develop proposals to implement the EU Clean Energy Package.

Tourism, Telecoms, Minerals and Petroleum

- Supported by Tourism NI and Tourism Ireland, continue to develop a new Tourism Strategy for Northern Ireland to 2030 in order to drive growth in this sector. Subject to legal advice, the Department hopes to publicly consult on this draft Strategy in 2018-19 in order to be able to provide full advice to Ministers, once appointed;
- Continue to implement the Telecoms Strategy 2015-2017 'Continuing to Connect' which will see the conclusion of the Superfast Roll-out Programme (SRP);
- Continue to monitor the Northern Ireland Broadband Improvement Project (NIBIP) including any future Gainshare investment; and,
- Commence preparations and procure the supplier for the Broadband Project funded by the Confidence and Supply Agreement.

Renewable Heat Incentive (RHI)

- The Department has a responsibility to find a long-term solution to bring expenditure on the Non-Domestic RHI Scheme back in line with the original policy intention. To inform this solution, the Department will launch a Public Consultation during the summer of 2018. The purpose of the formal consultation is to take views from stakeholders and other interested parties on a proposed tariff structure before the Department drafts Regulations for the long term. This process will allow DfE to

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balance its obligation to the Scheme beneficiaries with its wider obligation to safeguard the public interest and public purse; and,

- It is intended that new Regulations, informed by the Consultation, will be effective from April 2019. In the interim, DfE has extended the tariffs introduced under the 2017 Regulations for a further twelve month period.

Finance

- Progress plans to ensure that the Department is prepared to implement the proposals outlined in the 2013 Review of the NI Financial Process, with the aim of creating a single coherent financial framework that is effective, efficient and transparent and enhances scrutiny by and accountability to the Assembly. This includes the Department consolidating the financial information of its NDPBs within the Resource Accounts and Estimates, from 2020-21 onwards.

Further Education

- Progressing the delivery of seven major capital projects with an overall value of £215m in order to provide modern fit for purpose accommodation from which to deliver the skills necessary to aid economic growth and address social inclusion. These include construction of new campuses in Enniskillen, Armagh and Banbridge and the refurbishment of the Springtown campus in Derry/Londonderry. It is also expected that planning approval for the new Craigavon campus will be secured and that the design phase for new campuses at Coleraine and Ballymena will continue development. The Department is also supporting the development and implementation of the new Systems, Technology and Services (STS) system for the Sector; and,
- Flowing from Year 2 of the 'FE Means Success' strategy, a range of transformational projects will be taken forward, including rolling out four new curriculum Hubs, implementing the FE colleges' new planning and funding model and working in partnership with the Department for Education (DE) to develop a more joined up strategic approach to the 14-19 age cohort of learners.

European Fund Management

- It is anticipated that final Structural Funding receipts in respect of 2014-20 funded programmes will be fully drawn down by 2026 as final closure of current programmes is achieved. Following publication of the December 2017 Joint Report and subsequent Withdrawal and Separation Agreements between the UK and EU, an orderly withdrawal from the EU is anticipated, however should a formal Withdrawal Agreement ultimately prove elusive, HM Treasury has guaranteed that funding in respect of commitments made before March 2019 will be honoured. For ESF, where full commitment (except Technical Assistance) will be achieved by the March 2019 deadline, drawdown of all 2014-20 receipts is, therefore, largely guaranteed. For ERDF, commitments will be maximised where possible by March 2019 but reliance on the Treasury Guarantee could impact on the surety/timing of full drawdown; and,
- The Department for Business, Energy and Industrial Strategy (BEIS) are currently developing a UK Shared Prosperity Fund in support of the UK's Industrial Strategy.

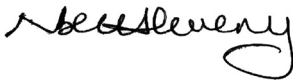
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It is anticipated this fund will replace a substantial element of current EU Structural funding streams which conclude in 2020. Gaining an understanding of how this fund will operate, the range of activities to be supported, and to how to secure an equitable share of available funding will be explored over coming months.

Analytical Services

- Provide a range of economic and statistical services to customers to enable them to progress Departmental strategies, policies and priorities; and,
- Deliver the DfE Research Agenda, which outlines the Department's key research priorities over the coming years.

All of the above matters under Future Developments will be subject to the views of an incoming Minister.



**Noel Lavery
Accounting Officer
26 June 2018**

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DIRECTORS' REPORT

Introduction

The Department's Annual Report and Accounts for the financial year ending 31 March 2018 demonstrate the resources that have been consumed in delivering its objectives.

This Annual Report has been prepared in accordance with the guidance set out in the Government Financial Reporting Manual (FRM) and guidance issued by the Department of Finance (DoF).

Departmental Reporting Cycle

The Department publishes its annual report and accounts each year on the Department's website (www.economy-ni.gov.uk). They are laid in the Northern Ireland Assembly. The Annual Report contains details of the Department's objectives, key outputs and performance and provides detailed textual and financial descriptions of performance against targets. Departmental performance is monitored periodically during the year. In-year monitoring is provided in the form of Spring Estimates which outline what resources are needed for the current year. These are published by The Stationery Office and laid in the Northern Ireland Assembly.

Departmental Accounting Boundary

These Accounts comprise the accounts of the core Department for the Economy, which was established as a Northern Ireland Central Government Department in May 2016 following the restructuring of the number of Northern Ireland Civil Service Departments from twelve to nine.

Bodies outside the Departmental boundary

Bodies not consolidated in these accounts but for which the Department is responsible for the sponsorship and oversight of are:

Non-Departmental Public Bodies (NDPBs)

- Invest Northern Ireland (Invest NI);
- Tourism Northern Ireland (Tourism NI);
- Health and Safety Executive for Northern Ireland (HSENI);
- Consumer Council for Northern Ireland (GCCNI);
- Northern Ireland Screen;
- Construction and Industry Training Board–Northern Ireland (CITB-NI);
- Labour Relations Agency;
- Stranmillis University College;
- the six Further Education (FE) colleges; and,
- Colleges Northern Ireland (CNI).

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Four Autonomous Higher Education Institutions

- Ulster University;
- Queens University Belfast;
- the Open University; and,
- St Mary's University College.

The Department also acts as co-sponsor Department to North/South bodies set up under the Belfast Agreement which are also regarded as falling outside the accounting boundary. These are:

- (i) InterTradeIreland (Trade and Business Development Body); and,
- (ii) Tourism Ireland.

In addition, Harland & Wolff Plc, a limited company which is wholly owned by the Department, is also regarded as being outside the accounting boundary. Further details are contained in the Notes to the Resource Accounts.

Information about each of the above entities may be obtained from their separate published Annual Reports and Accounts.

The Minister

The Department has functioned without a Minister for the 2017-18 financial year.

Permanent Head of the Department

The Permanent Secretary and Accounting Officer for the Department for the 2017-18 financial year was Dr Andrew McCormick from 1 April 2017 to 18 February 2018 and Mr Noel Lavery from 19 February 2018 for the remainder of the year.

Departmental Board

The Permanent Secretary was supported in 2017-18 by a Departmental Board comprising both senior Departmental officials (Executive Board Members) and Independent Board Members. The Independent Board Members during the year were:

- David Beck (term expired on 30 June 2017);
- Claire Hughes; and,
- Colm McKenna (term commenced on 14 September 2017).

Total fees and expenses of £15,898 were paid in respect of the Department's Independent Board Members.

All Board Members for the Department are listed in the table of attendance at the DfE Board Meetings which is set out in the Governance Statement on page 56 of this report.

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Register of Interests

The Department maintains a Register of Interests, a copy of which is available on request. One significant conflict of interest was declared and managed by an Independent Board Member during the year. Further information is provided in the Governance Statement on page 60.

Auditors

The financial statements are audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001. He is head of the Northern Ireland Audit Office. He and his staff are wholly independent of the Department and he reports his findings to the Northern Ireland Assembly.

Personal Data Related Incidents

The Department is fully committed to complying with the Data Protection Act 1998 and has processes in place to ensure that all employees, contractors, agents, consultants and other parties who have access to personal information held by or on behalf of the Department are fully aware of and abide by their responsibilities under the Act. These include a data protection policy and staff handbook, departmental guidance on data sharing and a data breach management plan.

There were no reported data breaches between 1 April 2017 and 31 March 2018.

Complaints Procedure

The Department received ten customer service complaints during the 2017-18 period. A report on lessons learned during the 2017-18 period is to be provided to senior management. The Department values complaints as a means of improving its services and offers a three stage resolution process, each with specific timescales for completion. The DfE Complaints Procedure is available on the DfE website.

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STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance has directed the Department for the Economy to prepare for each financial year resource accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department for the Economy during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department for the Economy and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Department of Finance, including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis;
- confirm that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information; and,
- confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

The Department of Finance has appointed the Permanent Head of the Department as Accounting Officer of the Department for the Economy. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in Managing Public Money NI issued by the Department of Finance.

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THE GOVERNANCE STATEMENT

Introduction

The Governance Statement sets out the governance structures, risk management and internal control procedures that operated within the Department during the 2017-18 financial year. It also considers any material post balance sheet events up to the date of approval of the Annual Report and Accounts which are disclosed at Note 24 on page 149. This Governance Statement has been prepared in accordance with guidance issued by the Department of Finance.

Budget Position and Authority

The Northern Ireland Assembly was dissolved from 26 January 2017 with an election taking place on 2 March 2017, on which date Ministers ceased to hold office. An Executive was not formed following the 2 March 2017 election. As a consequence, the Northern Ireland Budget Act 2017 was progressed through Westminster, receiving Royal Assent on 16 November 2017, followed by the Northern Ireland Budget (Anticipation and Adjustments) Act 2018 which received Royal Assent on 28 March 2018. The authorisations, appropriations and limits in these Acts provide the authority for the 2017-18 financial year and a vote on account for the early months of the 2018-19 financial year as if they were Acts of the Northern Ireland Assembly.

Scope of Responsibility

The Department should operate under the direction and control of the Minister for the Economy, who is responsible and answerable to the Assembly for the exercise of the powers on which the administration of the Department depends. He/she has a duty to the Assembly to account and to be held to account for all the policies, decisions and actions of the Department, including its Sponsored Bodies. The Permanent Secretary, as the Departmental Accounting Officer, is responsible for the overall organisation, management and staffing of the Department and for ensuring that there is a high standard of financial management in the Department as a whole. He/ she is accountable to the Minister and the Assembly. However, the Department functioned without a Minister for the duration of the 2017-18 reporting period.

The Permanent Secretary as Departmental Accounting Officer for the Department has responsibility for maintaining a robust governance and risk management structure and a sound system of internal control that supports the achievement of departmental policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which he/ she is personally responsible, in accordance with the responsibilities assigned to him/ her in Managing Public Money Northern Ireland.

The public bodies for which the Department has oversight responsibility are accountable for ensuring they have robust governance, financial and risk management structures and sound internal control arrangements in place. In order to ensure appropriate governance arrangements are in place, dedicated sponsor teams monitor and provide guidance to these Sponsored Bodies. The Department has written agreements in place with its Sponsored Bodies which set out the respective roles and responsibilities of both parties. In addition, the Accounting Officer receives formal mid-year and end-year assurance

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statements from each of its Sponsored Bodies as well as from each Director within the Department to confirm that appropriate systems and controls are in place and operate effectively within each organisation and business areas respectively. Key issues emanating from those statements are reflected in this Governance Statement.

In order to manage the Department efficiently, the Accounting Officer has been supported by formal governance structures with clear remits, details of which are provided below.

Departmental Board

The Board’s role is to set and oversee the strategic direction of the Department within the strategic framework set by the Minister, to monitor performance against corporate and business plans, budgets and targets, and to establish and oversee the governance and risk management arrangements of the Department. In order to fulfil this role, the Board met monthly with the exception of August and December during the 2017-18 financial year. Minutes of all Board meetings are published on the departmental website.

The Board operates within the guidelines set out in ‘Corporate Governance in Central Government Departments: Code of Good Practice NI 2013’.

The Board is chaired by the Permanent Secretary, who, as Accounting Officer, is responsible for the appointment of all Independent Board Members. Membership comprises:

- the Permanent Secretary;
- the Deputy Secretaries;
- the Central Services and Finance Directors;
- the Grade 5 HR Business Partner; and,
- two Independent Board Members.

The Board met on ten occasions during 2017-18. Attendance during the year at Board meetings was as follows:

Board Member	Role/Title	Number of Meetings Attended
Andrew McCormick Chris Stewart (deputised on 1 occasion) Noel Lavery (with effect from February 2018)	Permanent Secretary	7 1 2
Mike Brennan Diarmuid McLean (deputised on 2 occasions) Mary McIvor (deputised on 2 occasions)	Deputy Secretary (Strategic Policy)	6 2 2
Heather Cousins Iain McFarlane (deputised on 2 occasions)	Deputy Secretary (Operational Policy – Higher Education and Investment)	8 2

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Eugene Rooney	Deputy Secretary (Operational Policy – Skills and Business Development)	9
Chris Stewart	Deputy Secretary (Operational Policy – Infrastructure and Regulation)	9
Stephen McMurray	Director – Finance Division	2
Andrea Quail (deputised on 3 occasions)		3
Ronan Murtagh (deputised on 5 occasions)		5
Wendy Johnston (with effect from February 2018)	Director – Central Services Division	2
Janine Fullerton	Director NICS HR (HR Support/ Specialist Services)	9
David Beck (last meeting 29 June 2017)	Independent Board Member	3
Claire Hughes	Independent Board Member	9
Colm McKenna (with effect from September 2017)	Independent Board Member	5

Other Directors are invited to attend where significant items pertaining to their business areas are to be discussed by the Board. A minimum of three members of the Board must be present for the meeting to be deemed quorate. All Board meetings during the 2017-18 financial year were quorate.

During the 2017-18 year, key issues/topics considered by the Board included:

- Financial management information;
- Non-financial performance, including progress reports against the Departmental Business Plan;
- The draft Programme for Government/ Industrial Strategy;
- Human resources including staff engagement, managing attendance, the voluntary exit scheme and the development of NICS HR;
- Updates on the Non-Domestic Renewable Heat Incentive (RHI) Scheme;
- Risk management including monthly consideration of the corporate risk register;
- Assurance Statements provided by DfE Directorates and Sponsored Bodies;
- Reports and feedback from the Departmental Audit and Risk Assurance Committee (DARAC) meetings;
- EU Exit preparations;
- Freedom of Information requests;
- The Procurement Plan and Direct Award Contracts;

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- The Digital Transformation Programme and Digital Shared Services;
- Preparations for the General Data Protection Regulation;
- Major project updates; and,
- Asset management.

Quality of Data Used by the Departmental Board

The Departmental Board uses information based on a number of data sources. In relation to performance targets, the Board draws assurance from the fact that a number of the data sources used are also utilised for the publication of Official Statistics or National Statistics. Data relating to financial information and absenteeism is derived from NICS wide systems such as Account NI and HR Connect. The Departmental Board takes assurance on the quality of this data from the internal controls in place in the Department and the scrutiny of the Account NI and HR Connect systems by the Department of Finance's Internal Audit Service and the supply of information on absenteeism to departments by the Northern Ireland Statistics and Research Agency (NISRA).

Board Performance and Effectiveness

In May 2018, the Board carried out an assessment of its own effectiveness. This assessment was completed through a detailed evaluation questionnaire which considered the Board's approach to issues such as its contribution to strategy, risk and control, performance management and communication. It also assessed how the Board works together and the Board's responsiveness to external challenges such as the prolonged absence of a Minister and EU exit.

Through completion of this assessment, a number of points were identified by Board Members including acknowledgement that Board discussions were open and engaging and that the Board had responded proactively to the absence of a Minister. Feedback identified a number of positive steps being taken in key areas ranging from Risk Appetite and restructuring of the Corporate Risk Register to seeking to improve upon the DfE Staff Survey results.

Feedback also identified the potential for a greater focus on leadership development and that the Board's role in considering/discussing strategic objectives could be inhibited by external timetables associated with the allocation of resources. It was noted that the Board could benefit from a wider more diverse (for example commercial, telecoms, EU Exit) experience base with greater input from Independent Board Members.

The Departmental Audit and Risk Assurance Committee (DARAC)

The Departmental Board has established a DARAC which acts in an advisory capacity and reports to the Board/ Accounting Officer. The DARAC's overall purpose is to assist the Accounting Officer and the Board in fulfilling their corporate governance responsibilities. Its role is one of advice and scrutiny in accordance with the relevant guidance issued by the Department of Finance.

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The DARAC is chaired by an Independent Board Member. Membership during 2017-18 included:

- two Independent Board Members (including the Chair); and,
- two NICS members (external to the department).

During 2017-18, the DARAC met three times (June 2017, October 2017 and February 2018) with attendance as follows:

Committee Member	Meetings Attended	Out of a Possible
<u>Independent Board Members</u>		
David Beck (Chair) – <i>last meeting June 2017</i>	1	1
Claire Hughes	3	3
Colm McKenna (Chair) – <i>first meeting October 2017</i>	2	2
<u>External Senior Civil Servant</u>		
Grace Nesbitt	3	3
Anthony Harbinson	2	3
<u>Official Attendees</u>		
Heather Cousins	2	3
Stephen McMurray*	1	1
Ronan Murtagh**	3	3
Internal audit representation	3	3
Northern Ireland Audit Office (NIAO) representation	3	3
European Union (EU) Audit Authority	3	3

* Stephen McMurray (Finance Director) temporarily moved to the RHI Taskforce until January 2018 so only attended the February 2018 meeting as Finance Director.

** Ronan Murtagh was temporarily promoted to Finance Director until December 2017.

Other attendees are invited to attend meetings if a discussion is to be held about their particular business area. A quorum for any meeting of the Committee is two members. All Committee meetings during the 2017-18 financial year were quorate.

The key issues/topics discussed at the DARAC meetings during the 2017-18 financial year were as follows:

- Risk management;
- Assurance reporting;
- Internal Audit Plan;
- Information Security updates;
- European Programmes updates;
- Non-Domestic and Domestic RHI Scheme updates;
- Governance issues in NDPBs and cross-border bodies;
- Northern Ireland Audit Office updates; and,
- The Annual Report and Accounts.

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The Board takes assurance from the Annual Report provided by the DARAC which reports on the above discussions undertaken during the financial year.

Other Organisational Structures

Other organisational structures that contribute to sound corporate governance in the Department are the Senior Management Team and the Casework Committee.

Senior Management Team

Senior Management Team meets regularly to discuss ongoing operational issues. It is chaired by the Permanent Secretary and membership comprises the Deputy Secretaries and Heads of Divisions and Grade 6 Heads of Business Units. The Head of Central Management Branch and the Principal Information Officer are also in attendance.

Casework Committee

The DfE Casework Committee meets as and when required to consider and approve DfE projects involving expenditure above £1 million. All members of the DfE Senior Management Team are eligible to participate in the Casework Committee, however, the Head of a Group from which an expenditure proposal emanates is debarred from sitting on the Casework Committee which considers the proposed expenditure. The Casework Committee is chaired by an officer of at least Deputy Secretary level, and requires a minimum of three members to be quorate. During the year it was agreed that one Independent Board Member should attend where he or she could add value through external experiences to strengthen the Department's governance in regard to Casework Committees.

Casework Committees are also in place to consider significant expenditure proposals emanating from the NDPBs, Cross Border Bodies and Independent/ Autonomous bodies. The Departmental Board receives regular updates on the progress of Casework across the Department.

Register of Interests

Declaring conflicts of interest is a standing agenda item at all Departmental Board, DARAC and Senior Management Team meetings. In addition, each year an exercise is commissioned to all senior management staff, including Independent Board Members and external Senior Civil Servants serving on the DARAC, reminding them of their responsibilities in regards to declaring interests and prompting them to complete a Declaration of Interests form.

During 2017-18, an Independent Board Member declared an interest in relation to Domestic RHI. This was raised via the DARAC where the Chair decided on actions to mitigate any conflicts that may arise. There were no other significant interests currently held by Board members and/or key senior staff which may conflict with their management responsibilities. Full details of interests are given in Note 21 (on pages 146 and 147) to the Accounts.

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Compliance with the Corporate Governance Code

Within Northern Ireland, Departments are required to operate under the *'Corporate Governance in Central Government Departments: Code of Good Practice NI 2013'*. Departments are required to either comply with the Code or explain any significant departures from it.

During 2017-18, the Department complied with the principles and supporting provisions set out in this Code. The Code outlines a model Board Operating Framework that can be used to document a Departmental Board's roles and responsibilities. It also sets out departmental responsibilities in the oversight of Arm's Length Bodies (ALBs).

The Department is currently in the process of finalising a formal Corporate Governance Framework. There are draft Terms of Reference in place which are currently being followed.

Risk Management

The Department places significant emphasis on risk management. Risk management is viewed as an essential element of the Department's Corporate Governance Framework, and is closely linked to the business planning and monitoring process.

At the outset of the year (April 2017) the Department published its Risk Management Framework, outlining the processes through which risks should be identified, managed and reported at different levels within the Department. A corporate risk appetite was also set by the Departmental Board for 2017-18, defining the level of exposure the Department is willing to accept for different key categories of risk. The Department maintained an 'averse' risk appetite for most risk categories during the year, with the exception of 'policy' (open) and 'sponsorship' (cautious).

Risk management occurs at various levels within the Department. All Branches are required to maintain Branch risk registers for their own spheres of activity. If Branch risks are determined to be impacting Divisional objectives, they can be escalated to Divisional risk registers. Finally, where Divisional risks are felt to impact upon the Department's corporate objectives, they can be escalated to the corporate risk register. Risk registers are also required for specific programmes and projects.

The corporate risk register was monitored and managed by the Departmental Board on a monthly basis during 2017-18. Some of the key risks captured and managed within it during the year included risks relating to: the delivery of our commitments; the demand for our services; service standards of our suppliers; governance standards; financial management; maximising European funding; the Presbyterian Mutual Society; information management; compliance with EU Directives/ Regulations; and the RHI Scheme.

Throughout the year, the most significant risks which required active management related to compliance with EU Directives/Regulations and the Non-Domestic RHI Scheme, both of which were consistently assessed with a residual risk rating of 'extreme'. The issues and risks arising from the RHI Scheme, and how they were addressed during the year, are covered in more detail in the following section.

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Renewable Heat Incentive

Background

In its Programme for Government 2011-2015, the Executive set a target of achieving 4% of Northern Ireland's heat consumption from renewable sources by 2015 and 10% by 2020. In pursuit of these targets the Non-Domestic RHI scheme was introduced in Northern Ireland in November 2012, following the introduction of a parallel scheme in Great Britain. The Non-Domestic RHI scheme is a financial incentive scheme designed to increase uptake of renewable heat technologies. For approved installations it pays a fixed amount for every kilowatt of heat energy produced by various renewable technologies for a period of twenty years after installation. The main methods of generating heat include biomass heating systems, solar thermal and heat pumps. A similar RHI scheme for domestic properties was introduced in December 2014.

Issues Identified

During 2016-17 concerns were raised by the Department's Internal Audit Service and the NIAO about the design, management and cost of the Non-Domestic RHI Scheme. The main points were as follows:

- Expenditure was being incurred without proper approvals being in place, which made the expenditure 'irregular';
- The Non-Domestic RHI Scheme introduced in Northern Ireland lacked the cost controls that exist in Great Britain to ensure that the Scheme remains affordable and within budget;
- The Department's arrangements with the Office of Gas and Electricity Markets (Ofgem), which administers the Scheme on behalf of the Department, were neither adequate nor effective;
- There was potential for the Non-Domestic Scheme to be abused, as detailed in allegations received by the Department; and,
- Internal Audit noted a lack of appreciation of the risks associated with the Non-Domestic RHI Scheme, as well as a failure to ensure the continuity of staff involved in the management of the Scheme.

In September 2016 the Public Accounts Committee began an inquiry into the Non-Domestic RHI Scheme. The Committee held seven evidence sessions up to January 2017, taking evidence from both the current and previous Departmental Accounting Officers, the consultants who had been involved in the design of the scheme, and Ofgem which administered the scheme on behalf of the Department. However, the Committee was unable to complete its work and produce a report before the NI Assembly was dissolved on 26 January 2017. An independent Public Inquiry, chaired by Sir Patrick Coghlin, was established in January 2017 to investigate, inquire into and report on the Non-Domestic RHI Scheme. The Inquiry is ongoing.

Internal Audit Service also raised a number of issues following its review of the Domestic RHI Scheme, details of which can be found at page 66. The key issues raised relate to

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the rate of return on investment received by participants, the monitoring of the scheme through inspection visits, and the risk management processes used by management.

As part of its ongoing compliance activity the Department has become aware that there are a number of installations accredited under the Domestic RHI Scheme which may not have been eligible for support. Work is ongoing on this matter and specialist advice has been sought. Expenditure incurred to date that is potentially irregular amounts to £0.687m in 2018-19 and £0.188m in 2017-18.

Department's Response

The RHI Taskforce, established within DfE to address issues raised with the Domestic and Non-Domestic Schemes, has progressed the following actions to improve control during 2017-18:

- The first phase of a comprehensive programme of site inspections for the Non-Domestic Scheme commenced in August 2017. This involved inspections on 33 sites during the period September 2017 to January 2018 to assess compliance of the installations against Scheme Regulations and Guidance. Appropriate actions based on the findings from each site inspection are being progressed on an ongoing basis;
- Procurement of a supplier for phase 2 of the Non-Domestic inspections programme commenced with contract award scheduled for June 2018. This phase will include up to 250 site inspections over a 12 month period, supplemented with desk audits on up to 200 lower risk sites over the same period;
- External consultants (Ricardo Energy & Environment) were appointed to undertake a review of the existing tariff structure for the Non-Domestic Scheme. The findings from this review have been used to inform the development of proposals for a long term tariff which will be subject to a Public Consultation;
- Revised Regulations applying a usage cap and placing all participants on the same tariff were introduced in April 2017. These Regulations were subjected to a Judicial Review which the Department successfully defended. An appeal against the Court's decision has been lodged and is expected to be heard in September 2018;
- Work has been progressed on the Domestic Scheme Enforcement Policy which will put in place a policy to deal with participant non-compliance with the Domestic RHI Scheme regulations. This has been supported by the appointment of a Higher, Professional and Technical Officer (HPTO) to carry out site inspections;
- Independent Review of value for money of the Domestic RHI scheme, incorporating a consideration of the rate of return on investment, has been completed. Findings and options for next steps to be presented to the RHI Project Board in Summer 2018; and,
- Recommendations in relation to both RHI schemes set out in the Comptroller and Auditor General's report, Internal Audit Service report and independent consultants' report have been progressed and monitored through the RHI Project Board. As at the end of March 2018, 33 of the total of 39 recommendations were Fully Implemented, with the remainder being Partially Implemented.

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Financial Implications

As a result of The Renewable Heat Incentive Scheme (Amendment) Regulations (Northern Ireland) 2017 which introduced a two tier tariff and an energy usage cap for all participants, the overall cost of both RHI Schemes has reduced from over £45m in 2016-17 to approximately £24m in 2017-18.

The financial statements include the following amounts in respect of both RHI Schemes for 2017-18:

	2017-18 £m
Within the Departmental Expenditure Limit (DEL)	2.2
Annually Managed Expenditure	22.3
Total Expenditure	24.5

Current and Future Work

The key activities which will be taken forward in 2018-19 are:

- Delivery of Phase 2 of a comprehensive programme of independent site inspections to provide assurance and evidence of the operation of the Non-Domestic Scheme;
- Develop and implement revised working arrangements with Ofgem for delivery of the Non-Domestic Scheme, supported by effective performance based Administrative Arrangements;
- Consideration of a number of options for a sustainable long-term Non-Domestic tariff structure to be effective from April 2019. These options will be subject to a public consultation exercise which commenced in May 2018. The findings from the Consultation, together with the outcome of the recent judicial review of the 2017 Regulations, the ongoing Non-Domestic Public Inquiry and the external tariff review mentioned above, will all inform the long-term solution with any necessary Regulations scheduled to be in place by April 2019;
- Liaison with State Aid branch and the European Commission to ensure necessary approvals are in place to support the introduction of amended Regulations, to give effect to required tariff and cost control measures;
- Continued provision of information and documentation to the Non-Domestic Public Inquiry;
- Continued monitoring and reporting on the recommendations set out in the Comptroller and Auditor General's report, Internal Audit Service report and independent consultants' report;
- Delivery of an Inspection Programme for the Domestic Scheme; and,
- Establishment of a business as usual structure within the Department to support and administer the RHI Schemes throughout their remaining lifetimes.

RHI Lessons Learned Action Plan

The issues arising from the RHI Schemes have highlighted a number of wider lessons for the NICS at large. These have been captured in a draft RHI Lessons Learned Action Plan

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(to be updated pending the outcomes of the public inquiry) which includes actions relating to:

- Effective risk management;
- Oversight and monitoring of programmes and projects;
- Commercial awareness amongst relevant staff;
- Affordability of demand-led schemes;
- Effective handover arrangements; and,
- Handling of whistleblowing concerns.

During the year the Department made significant progress on the implementation of the Action Plan and regular updates were provided to the DfE Leadership Team and to the NICS Board. All Departments are continuing to work towards implementing the Plan in full and regular updates in this regard are provided at the NICS Board.

Internal Audit

Internal Audit Service's main purpose is to provide the Accounting Officer with an independent and objective opinion on the overall adequacy and effectiveness of the Department's risk management, control and governance processes. The Internal Audit Annual Opinion and Report is a key element of the framework of assurance that the Accounting Officer needs to inform this Governance Statement. Internal Audit Service operates in accordance with HM Treasury's Public Sector Internal Audit Standards.

Audit Strategy

During 2016-17, Internal Audit undertook the development of a new risk based Audit Strategy for the Department covering the period 2017-18 to 2019-20. The strategy is in accordance with the Public Sector Internal Audit Standards and uses a risk based methodology to assess the risks and activities of the Department and maps the proposed coverage to the Department's Corporate Risk Strategy and Objectives. Consideration is given to new systems, areas of high risk and any other central government requirements.

Audit Plan for 2017-18

The Internal Audit plan for 2017-18 was endorsed by the DARAC and the Accounting Officer. The plan was regularly updated to reflect the changing priorities of management, changing circumstances and emerging issues. Any changes to the original plan were endorsed by the DARAC. A mid-year review of the plan resulted in it being revised. This revision was agreed by the Accounting Officer and endorsed by the DARAC.

Audit Opinion for 2017-18

The Annual opinion provided by the Head of Internal Audit states that the Department has established and maintained "Limited" risk management, control and governance processes during 2017-18.

A "Limited" overall audit opinion was provided by Internal Audit in 2016-17. In considering the opinion for 2017-18 the Head of Internal Audit sought to balance the results of audit work undertaken during the year against the extent to which the issues that gave rise to the "Limited" overall opinion in the previous year had been addressed.

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The results of audit work undertaken in 2017-18 provide a positive perspective with the majority of audit assignments receiving “Satisfactory” audit opinions. However the most important issues that impact on the Overall Audit Opinion are in relation to the Non-Domestic and Domestic RHI Schemes. Internal Audit provided an “Unacceptable” Audit Opinion on the Non-Domestic RHI scheme and a “Limited” opinion in relation to the Domestic Scheme in 2016-17.

Non-Domestic RHI

In relation to Non-Domestic RHI Internal Audit recognises that revised tariffs are in place, royal assent was given to extending these tariffs to 31 March 2019 and that the revised tariff has significantly addressed the value for money of the scheme. However, until a permanent tariff is in place following public consultation and the current legal challenge in respect of the revised tariff is resolved Internal Audit cannot state that the risks are satisfactorily managed. In addition, Internal Audit would highlight that two of the recommendations relating to Project Management and Staff Handover, were for the Department as a whole and not solely a RHI Task Force matter and that these recommendations have not been fully implemented. Internal Audit considers that there is scope for raising the audit assurance from “Unacceptable” to “Limited” assurance to reflect the introduction of the temporary tariff. A full audit of the Task Force will be undertaken in 2018-19.

Domestic RHI

Internal Audit consider that the “Limited” opinion previously given in respect to Domestic RHI scheme still remains in place as the inspection programme of Domestic Installations has not yet started, although progress has been made in defining and resourcing the necessary expertise to carry out the inspections. In addition, management have confirmed that an independent review of the value for money of Domestic incentive scheme has confirmed Internal Audit’s initial view that the scheme was returning a return on investment for some participants in excess of that intended.

Internal Audit has been informed that the Department has become aware that there are a number of installations accredited by the Department under the Domestic RHI Scheme which may not have been eligible for support. Internal Audit does not consider that this materially affects the current “limited” audit opinion provided in relation to the Domestic RHI scheme. The concern around eligibility of some installations further reinforces Internal Audit’s view that the original “limited” opinion given to the Scheme remains appropriate. Internal Audit have a full audit of RHI Task Force scheduled as part of the audit plan for 2018-19 and the outstanding recommendations in relation to Domestic RHI will be subject to further follow-up as part of the review.

Shared Services

In addition, Internal Audit notes that The Department of Finance’s Internal Audit Service has provided its end-year Assurance Report and Opinion on Enterprise Shared Services. Enterprise Shared Services has received an overall “Satisfactory” audit opinion.

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Conclusion

In addition, to the implementation of the outstanding recommendations in relation to Domestic/ Non-Domestic RHI, Internal Audit considered that embedding programme and project management at the heart of all major projects and initiatives with the Department and ensuring there is adequate oversight and reporting on major projects to the Departmental Board is a key action required to improve the Department's risk management, control and governance processes.

Taking all of the above into consideration the Head of Internal Audit considered that the overall "Limited" opinion on the Department's risk management, control and governance processes was appropriate.

Key Control Issues

A key source of assurance when drafting this Governance Statement is the end of year assurance statements obtained from Sponsored Bodies and internal DfE Directorates. These statements provide important assurances about the internal controls in operation within the Department and the various bodies, the drafting and monitoring of business plan objectives, and the monitoring and reporting of fraud. These assurance statements also require business areas to report any significant issues or control weaknesses identified during the year.

In addition to the issues identified with the RHI schemes as previously mentioned, the main issues noted in the assurance statements were:

- Energy Division has reported issues with being able to procure technical assurance and financial verification consultants for the Gas to the West project. Two procurement exercises taken forward via Central Procurement Directorate (CPD) of DoF during the year failed to identify viable service providers. Accounting Officer approval has been obtained to proceed with a technical consultant from a CPD Framework Contract who has now been appointed which will help ensure adequate grant monitoring systems are in place for the project. The Department continue to seek arrangements to appoint a financial consultant and are in regular communication with CPD to address this.
- In January 2018 Invest NI brought forward casework to DfE and DoF to request approval for a final nine month extension to the Skills Growth Programme. As part of the casework process, DoF requested further information regarding a previous two year extension to the programme, which had been approved by the relevant delegated authority within Invest NI. This was done under the Invest NI amendments policy which delegates approval of extensions up to, but not exceeding, 24 months without reference to the original approver. DoF has subsequently determined that this extension did not fall under that policy. Invest NI therefore required retrospective approval for expenditure incurred on the Skills Growth Programme between 1 January 2016 and 31 December 2017. This was a time extension request only with no change to spending limits. The original DoF approval of costs for the project in March 2013 was £31m for a period up to December 2015. This approved amount was not exceeded therefore it is recognised that there were no value for money issues raised in respect of the two year extension. Steps have been taken by Invest NI to

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ensure that the misinterpretation of the conditions of approval will not reoccur. However, DoF has determined that due to the misinterpretation of the original conditions of approval, retrospective approval will not be granted. The total amount committed in the period 1 January 2016 to 5 April 2018 is £13.4m, of this amount £3m has been incurred, which has been determined to be irregular. The £3m expenditure claimed to date under these offers included £2.1m in 2017-18 with the balance in the preceding two years. Invest NI is reviewing and updating its policies in the context of the DoF decision, to ensure clarity going forward. In addition, Invest NI will review the balance of outstanding commitments under the remaining letters of offer in order to resolve the matter for future years.

- InterTradeIreland (ITI) requested DoF retrospective approval on 14 March 2018 for indemnities entered into with the Special EU Programmes Body (SEUPB) from 1 August 2016 to 31 March 2018. As lead partner of the Co-Innovate Programme, ITI has put in place signed Partnership Agreements with the other delivery Partners. These require each Partner to indemnify the other Partners for any liabilities, damages and costs resulting from the non-compliance of its duties and obligations. ITI has also submitted a similar request to the Department of Business, Enterprise and Innovation in RoI and this is currently under consideration. ITI are unable to clarify actual figures as no sum is appropriate given that indemnification is against potential liabilities that may arise through the project for example linked to death, loss of property, legal proceedings etc. This will be managed closely by SEUPB. DoF have yet to make a decision on this request.
- The Student Loans Company's (SLC) Annual Report and Accounts were qualified in 2016-17 as the organisation failed to comply with certain Government spending controls and approvals processes and so breached the requirements for regularity set out in Managing Public Money. The SLC has now taken a number of steps to improve its governance arrangements and controls around approval processes to prevent a recurrence of this qualification in the 2017-18 accounts. The SLC's Audit and Risk Committee will consider these improvements and any additional related control recommendations made by external auditors in respect of the above matters during the audit of the 2017-18 financial year. The interim audit report on the 2017-18 accounts did not raise any concerns. The SLC has provided the Department with a list of further actions being taken to strengthen the Company's control environment for 2018-19.
- HMS Caroline as a sustainable tourism attraction has been highlighted as a substantial risk in the Tourism NI Risk Register. Substantial progress has been made over this reporting period towards completion of the project, the long-term management arrangements and the outstanding leasing arrangements. However, the absence of a proposed endowment fund remains of concern to Tourism NI as it may affect the funds available to the organisation to deliver its strategic objectives in future years.

Where internal control issues have been identified, appropriate steps have been or are being taken, or mitigations appropriate to the risks have been identified, and recommendations have been presented to remedy the situation.

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North/ South bodies

In the absence of a DfE Minister, it was not possible to secure North South Ministerial Council (NSMC) approval of 2017 and 2018 Business Plans for InterTradeIreland and Tourism Ireland. While arrangements have been made with DoF to ensure legality of payments in the absence of business plans, expenditure will be irregular until the NSMC approves Business Plans.

Business Continuity Management

The Department has in place a Business Continuity Management process, whereby each Branch/ Division and Departmental building has a dedicated and managed Business Continuity Plan (BCP). All Branch/ Divisional BCPs are reported on in the Six Monthly Assurance Statement.

A Business Impact Analysis was completed for the Department which received approval from the Leadership Team in July 2017. Recommendations for follow up actions were then addressed via heads of Division. In addition, a scenario based desktop exercise of one of the corporate BCPs was held in October 2017 with training provided to Incident team members prior to the event. Following the exercise, a report on observations and recommendations received Leadership Team approval in December 2017. Work to implement the recommendations is well advanced with revised Adelaide House and Netherleigh BCPs completed and issued in March 2018.

Fraud Reporting

During 2017-18, there were 21 cases of suspected Fraud reported to the Department. Five of the cases reported during the year were in relation to the RHI Scheme. All five of these cases have been referred to Ofgem and investigated with three cases having been closed during the period. Further and Higher Education Divisions reported eight suspected fraud cases, with Tourism NI and Invest NI reporting three fraud cases each respectively. The remaining two suspected fraud cases were reported from another division within the Department and relate to a training and recruitment body.

Appropriate actions have been taken on all cases reported. Any recommendations made are being implemented and policies and procedures updated. In line with appropriate guidance, all cases of fraud during the year have been reported to DoF and NIAO. There are five cases outstanding from 2016-17 all of which are in relation to the RHI Scheme. All five cases have been investigated by Ofgem and required further information or evidence which has been requested.

Whistleblowing

The Department's whistleblowing policy, which outlines the relevant NICS and statutory framework and includes specific guidance for stakeholders' external to the department, was revised and reissued to staff in September 2017. The number of incidents notified during 2017-18 was 18.

Six cases relate to the Non-Domestic RHI and one to the Domestic RHI Scheme. All cases were initially referred to Ofgem or considered by the RHI Case Review Panel. Four cases were notified by the Further and Higher Education Divisions, three of which were resolved

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within the period. A further three cases were reported to Youth Policy Division and are with Commercial Services Branch for investigation. The remaining four cases were reported to the Department and across other Sponsor Bodies and three of these cases have now been resolved.

There are six outstanding cases from 2016-17, four of which are in relation to the RHI Scheme. All six cases are the subject of further investigations.

Quality Evaluations

The Department commissions the Education and Training Inspectorate (the Inspectorate) to inspect and report on the quality of provision across further education and training programmes. Where issues of quality are identified, follow-up inspections take place at regular intervals to monitor progress towards improvement.

In addition, each provider is required to submit an annual self-evaluation report and quality improvement plan in order to build the capacity for self-improvement. These documents are evaluated by the Inspectorate who also carry out a short scrutiny inspection to confirm the strengths and areas for improvement identified by each provider.

The Inspectorate has worked with the Department on a number of evaluative exercises including the completion of an evaluation of the Youth Training and apprenticeship pilot programmes at level 3. In addition, inspection visits to European Social Fund (ESF) projects in Call one were completed. The Department's Quality Improvement Team continued to visit providers of Higher Level Apprenticeships, sharing feedback about the quality of provision with relevant providers.

Responsibility for the Steps 2 Success programme, which is designed to help those who are long-term unemployed to find work rests with the Department for Communities. Under a Service Level Agreement between the Department for Communities and Department for the Economy, assessors from the Quality Improvement Team have continued to provide a full programme of quality evaluations of the three Lead Contractors and their supply chains.

In November 2017, the Departmental Board reviewed the interim report from the Quality Improvement Team for the period January to June 2017 in which Board members received a detailed update as to the quality of provision across Further Education, Training for Success and ApprenticeshipsNI.

Information Security

During the reporting period each Division updated its Information Asset Register and a Departmental Security Health Check was completed in November 2017 with no significant issues identified. This is an exercise which reports to the Head of the NICS and includes a single return for DfE and all its ALBs. The report contains an independent assurance statement from the Head of Internal Audit and is endorsed by the Permanent Secretary as Accounting Officer.

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The Department also carried out analysis of its annual Information Security Survey. This exercise provides a further assurance to the Accounting Officer that information is being securely handled and effectively managed across all business areas.

IT Health Checks (independent tests to verify the security of IT systems) were carried out on a number of our Line of Business applications. Risks identified by these tests have been addressed through system changes, or accepted by the departmental Accreditor. Development work on a replacement IT system for Insolvency Service continues and is currently scheduled for an IT Health Check in Q4. A review of system Accreditation requirements in NICS is ongoing and is expected to report shortly. The Accreditation process ensures that best practice standards for the security of IT systems have been followed in systems used by the Department, and changes to these requirements may lead to changes in the risk management and security testing methodologies used to assess our IT systems.

General Data Protection Regulation (GDPR)

The Department worked towards compliance with the GDPR which came into effect on 25 May 2018. Following the creation of a GDPR Project Board, a Data Protection Officer was appointed to oversee preparations for the GDPR and an implementation plan was taken forward. This included the provision of detailed advice and guidance to business areas and the delivery of various awareness sessions to staff.

Public Accounts Committee Issues

The Northern Ireland Assembly and its committees were dissolved on 26 January 2017. No Public Accounts Committees were held in 2017-18 year.

Three issues on which the Committee has previously reported and on which the Department will need to provide updates when possible are as follows:

1. On 18 March 2015, the Department provided evidence to the Assembly's Public Accounts Committee on an NIAO report "Cross-border broadband initiative: the Bytel project". The Public Accounts Committee's report, containing eight recommendations, was published on 1 July 2015. A Memorandum of Reply responding to the Committee's recommendations was laid before the Assembly on 2 October 2015. A progress report on the implementation of recommendations was provided by the Permanent Secretary to the PAC Chairperson on 11 November 2016. The Department will provide another update report to the Public Accounts Committee once the Committee has been re-established.
2. On 21 October 2015, the Department provided evidence to the Assembly's Public Accounts Committee on an NIAO report "The Northern Ireland Events Company". The Northern Ireland Events Company was a Non-Departmental Public Body sponsored by the Department of Culture, Arts and Leisure. The Department's evidence related to its role in the appointment and oversight of Company Inspectors and subsequent action taken on foot of the Company Inspectors' report. The Committee published its report on 24 February 2016. Two recommendations were made relating specifically to the

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Department. A response, in the form of a Memorandum of Reply was laid before the Assembly on 22 June 2016. The Department has taken action on both recommendations made and will write to the Public Accounts Committee with full details of each once the Committee has been re-established.

3. The Public Accounts Committee began an enquiry into the Non-Domestic RHI Scheme in September 2016. The Committee held seven evidence sessions up to January 2017, taking evidence from both the current and previous Departmental Accounting Officers, the consultants who had been involved in the original design of the scheme, and Ofgem which administered the scheme on behalf of the Department. However, the Committee was unable to complete its work and produce a report before the NI Assembly was dissolved on 26 January 2017. An independent Public Inquiry, chaired by a retired judge, Sir Patrick Coghlin, was established in January 2017 to investigate, inquire into and report on the Non-Domestic RHI Scheme. The work of the Public Inquiry is still ongoing.

Ministerial Directions

There were no Ministerial directions given during the 2017-18 financial year.

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REMUNERATION REPORT

Remuneration Policy

The Senior Civil Service (SCS) remuneration arrangements are based on a system of pay scales for each SCS grade containing a number of pay points from minima to maxima, allowing progression towards the maxima based on performance. In 2012, upon creation, there were 11 points on each scale. The minimum point has been removed in each year from 2014 to 2016 (the scales now have 8 pay points) to allow progression through the pay scales within a reasonable period of time.

The pay remit (for the NI public sector and SCS) is normally approved by the Minister of Finance but, in the absence of an Executive, the DoF Permanent Secretary has set the 2017-18 NI public sector pay policy in line with the overarching HMT parameters and in a manner consistent with the approach taken by the previous Finance Minister in 2016-17.

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.nicscommissioners.org.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and most senior management of the Department.

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Remuneration (including salary) and pension entitlements (audited information)

Ministers	2017-18			2016-17		
	Salary £	Pension benefits* (to nearest £1000)	Total £000	Salary £	Pension benefits* (to nearest £1000)	Total £000
Simon Hamilton MLA <i>25/05/2016 – 02/03/2017</i>	-	-	-	29,419	9,000	35-40
Jonathan Bell MLA <i>01/04/2016 – 05/05/2016</i>	-	-	-	3,677	1,000	0-5
<i>No Minister was in place during 2017-18.</i>						
Officials	2017-18			2016-17		
	Salary £000	Pension benefits* (to nearest £1000)	Total £000	Salary £000	Pension benefits* (to nearest £1000)	Total £000
Noel Lavery <i>Permanent Secretary 19/02/2018 – 31/03/2018</i>	10-15 (115-120 full year equivalent)	1,000	10-15	-	-	-
Andrew McCormick <i>Permanent Secretary 01/04/2017 – 18/02/2018 & 01/04/2016 – 31/03/2017</i>	110-115 (125-130 full year equivalent)	39,000	150-155	125-130	43,000	165-170
Heather Cousins <i>Deputy Secretary</i>	90-95	10,000	100-105	90-95	85,000	175-180
Eugene Rooney <i>Deputy Secretary</i>	85-90	1,000	90-95	85-90	(14,000)	70-75
Chris Stewart <i>Deputy Secretary</i>	85-90	4,000	90-95	85-90	31,000	115-120
Michael Brennan <i>Deputy Secretary 08/05/2017 – 31/03/2018</i>	80-85 (85-90 full year equivalent)	3,000	85-90	-	-	-
Diarmuid McLean <i>Acting Deputy Secretary 01/04/2017 – 07/05/2017 & 13/03/2017 – 31/03/2017</i>	5-10 (85-90 full year equivalent)	14,000	20-25	0-5 (85-90 full year equivalent)	7,000	10-15

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Officials (continued)	2017-18			2016-17		
	Salary £000	Pension benefits* (to nearest £1000)	Total £000	Salary £000	Pension benefits* (to nearest £1000)	Total £000
Derek Baker <i>Deputy Secretary</i> 01/04/2016 – 26/02/2017	-	-	-	100-105 (110-115 full year equivalent)	17,000	115-120
Wendy Johnston <i>Assistant Secretary</i> to 31/03/2017	-	-	-	60-65 (75-80 full year equivalent)	9,000	65-70
Trevor Cooper <i>Assistant Secretary</i> 01/04/2016 – 07/05/2016	-	-	-	5-10 (70-75 full year equivalent)	2,000	5-10
Stephen McMurray <i>Assistant Secretary</i> 03/01/2018 – 31/03/2018 & 08/05/2016 – 18/12/2016	15-20 (70-75 full year equivalent)	-	15-20	40-45 (70-75 full year equivalent)	14,000	55-60
Andrea Quail <i>Acting Assistant Secretary</i> 03/07/2017 – 30/09/2017 & 19/12/2016 – 19/03/2017	15-20 (65-70 full year equivalent)	20,000	35-40	15-20 (65-70 full year equivalent)	21,000	35-40
Ronan Murtagh <i>Acting Assistant Secretary</i> 01/10/2017 – 02/01/2018 & 01/04/2017 – 02/07/2017 & 20/03/2017 – 31/03/2017	35-40 (65-70 full year equivalent)	39,000	70-75	0-5 (65-70 full year equivalent)	9,000	10-15
Claire Hughes <i>Non-Executive Director</i>	5-10	-	5-10	10-15	-	10-15
Colm McKenna <i>Non-Executive Director</i> 14/09/2017 – 31/03/2018	5-10	-	5-10	-	-	-
David Beck <i>Non-Executive Director</i> 01/04/2017 – 30/06/2017 & 01/04/2016 – 31/03/2017	0-5	-	0-5	5-10	-	5-10
Janine Fullerton** <i>Non-Executive Director</i> 03/04/2017 – 31/03/2018	-	-	-	-	-	-

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Officials (continued)	2017-18			2016-17		
	Salary £000	Pension benefits* (to nearest £1000)	Total £000	Salary £000	Pension benefits* (to nearest £1000)	Total £000
Professor Russel Griggs OBE Non-Executive Director 01/04/2016 – 27/06/2016	-	-	-	0-5	-	0-5

**The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation and any increase or decrease due to a transfer of pension rights.*

***This Non-Executive Director is employed by Department of Finance and, as such, is paid by that Department.*

*Non-Executive Directors are remunerated on a per diem basis.
None of the above received benefits in kind in 2017-18 or 2016-17.*

Median Remuneration (Audited Information)

	2017-18	2016-17
Band of Highest Paid Director's Total Remuneration (£000)	115-120	125-130
Median Total Remuneration (£)	28,642	27,776
Ratio	4.10	4.59

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation and any ex-gratia payments.

The Northern Ireland Assembly was dissolved from 26 January 2017 with an election taking place on 2 March 2017, on which date Ministers ceased to hold office. An Executive was not formed following the 2 March 2017 election. As a consequence, there has been no Minister in place in the Department during the 2017-18 year.

Prior to the election on 2 March 2017, the Department for the Economy was under the direction and control of Simon Hamilton from 25 May 2016 to 2 March 2017. His salary and allowances were paid by the Northern Ireland Assembly and have been included as a notional cost in the prior year comparative figures within these accounts. These amounts do not include costs relating to the Minister's role as a Member of the Legislative Assembly (MLA) which are disclosed elsewhere.

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Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. No benefits in kind were awarded to senior officials in respect of 2017-18 and 2016-17.

Fair Pay (Audited Information)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The median remuneration of the Department's staff is the total remuneration of the staff member(s) lying in the middle of the linear distribution of the total staff, excluding the highest paid director. This is based on annualised, full-time equivalent (FTE) remuneration as at the reporting period date.

Total remuneration includes salary, non-consolidated performance-related pay, and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions. Total remuneration is calculated on an annualised basis to remove any fluctuations caused by employee turnover, which do not reflect changes in pay policy.

The FTE measurement of staff is specified to ensure a level of comparability that would otherwise be distorted, if a member of staff represented a whole unit, irrespective of the hours worked.

The ratio is calculated as follows:

$$\frac{\text{Midpoint in highest paid director's pay band}}{\text{Median remuneration of Department's staff}}$$

The banded remuneration of the highest paid director in the Department in the financial year 2017-18 was £115,000-120,000 (2016-17: £125,000-130,000). This was 4.10 times (2016-17: 4.59 times) the median remuneration of the workforce, which was £28,642 (2016-17: £27,776).

In 2017-18, six individuals (2016-17: one individual) received remuneration in excess of the highest paid director. Remuneration ranged from £115,000-150,000 (2016-17: £130,000 - £135,000).

The movement in the ratio between 2017-18 and 2016-17 is primarily attributable to a decrease in the midpoint of the highest paid director's pay band, coupled with a slight increase in the Department's median total remuneration.

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Pension Entitlements (Audited Information)

Officials	Accrued pension at age as at 31/03/2018 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/2018 £000	CETV at 31/03/2017 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £000
Noel Lavery <i>Permanent Secretary</i> 19/02/2018 – 31/03/2018	35-40 Plus lump sum of 20-25	0-2.5 Plus lump sum of (0-2.5)	742	719	1	-
Andrew McCormick <i>Permanent Secretary</i> 01/04/2017 – 18/02/2018 & 01/04/2016 – 31/03/2017	70-75 Plus lump sum of 105-110	0-2.5 Plus lump sum of 0-2.5	1,494	1,432	38	-
Heather Cousins <i>Deputy Secretary</i>	20-25 Plus lump sum of 65-70	0-2.5 Plus lump sum of 0-2.5	473	433	9	-
Eugene Rooney <i>Deputy Secretary</i>	40-45 Plus lump sum of 120-125	0-2.5 Plus lump sum of 0-2.5	947	886	1	-
Chris Stewart <i>Deputy Secretary</i>	30-35 Plus lump sum of 100-105	0-2.5 Plus lump sum of 0-2.5	685	639	3	-
Michael Brennan <i>Deputy Secretary</i> 08/05/2017 – 31/03/2018	30-35 Plus lump sum of 95-100	0-2.5 Plus lump sum of 0-2.5	656	615	2	-
Diarmuid McLean <i>Assistant Deputy Secretary</i> 01/04/2017 – 07/05/2017 & 13/03/2017 – 31/03/2017	25-30 Plus lump sum of 80-85	0-2.5 Plus lump sum of 0-2.5	635	620	13	-
Stephen McMurray <i>Assistant Deputy Secretary</i> 03/01/2018 – 31/03/2018 & 08/05/2016 – 18/12/2016	20-25 Plus lump sum of 65-70	0-2.5 Plus lump sum of 0-2.5	536	486	-	-
Andrea Quail <i>Assistant Deputy Secretary</i> 03/07/2017 – 30/09/2017 & 19/12/2016 – 19/03/2017	10-15 Plus lump sum of nil	0-2.5 Plus lump sum of nil	191	172	13	-

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Officials (continued)	Accrued pension at age as at 31/03/2018 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/2018 £000	CETV at 31/03/2017 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £000
Ronan Murtagh <i>Assistant Deputy Secretary</i> 01/10/2017 – 02/01/2018 & 01/04/2017 – 02/07/2017 & 20/03/2017 – 31/03/2017	15-20 Plus lump sum of nil	0-2.5 Plus lump sum of nil	188	157	16	-

Northern Ireland Civil Service (NICS) Pension Schemes

Pension benefits are provided through the Northern Ireland Civil Service pension schemes which are administered by Civil Service Pensions (CSP).

The alpha pension scheme was introduced for new entrants from 1 April 2015. The alpha scheme and all previous scheme arrangements are unfunded with the cost of benefits met by monies voted each year. The majority of existing members of the classic, premium, classic plus and nuvos pension arrangements also moved to alpha from that date. Members who, on 1 April 2012, were within 10 years of their normal pension age did not move to alpha and those who were within 13.5 years and 10 years of their normal pension age were given a choice between moving to alpha on 1 April 2015 or at a later date determined by their age. Alpha is a 'Career Average Revalued Earnings' (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The rate is 2.32%.

New entrants joining can choose between membership of alpha or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

New entrants joining on or after 30 July 2007 were eligible for membership of the nuvos arrangement or they could have opted for a partnership pension account. Nuvos is also a CARE arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The current rate is 2.3%.

Staff in post prior to 30 July 2007 may be in one of three statutory based 'final salary' defined benefit arrangements (classic, premium, and classic plus). From April 2011, pensions payable under classic, premium, and classic plus are reviewed annually in line with changes in the cost of living. New entrants joining on or after 1 October 2002, and before 30 July 2007, could choose between membership of premium or joining the partnership pension account.

All pension benefits are reviewed annually in line with changes in the cost of living. Any applicable increases are applied from April and are determined by the Consumer Prices Index (CPI) figure for the preceding September. The CPI in September 2017 was 3% and

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HM Treasury has announced that public service pensions will be increased accordingly from April 2018.

Employee contribution rates for all members for the period covering 1 April 2018 to 31 March 2019 are as follows:

Scheme Year 1 April 2018 to 31 March 2019

Annualised Rate of Pensionable Earnings (Salary Bands)		Contribution rates – Classic members or classic members who have moved to alpha	Contribution rates – All other members
From	To	From 1 April 2018 to 31 March 2019	From 1 April 2018 to 31 March 2019
£0	£15,000.99	4.6%	4.6%
£15,001.00	£21,636.99	4.6%	4.6%
£21,637.00	£51,515.99	5.45%	5.45%
£51,516.00	£150,000.99	7.35%	7.35%
£150,001.00 and above		8.05%	8.05%

Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but, where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach their scheme pension age, or immediately on ceasing to be an active member of the scheme if they are at, or over, pension age. Scheme Pension age is 60 for members of classic, premium, and classic plus and 65 for members of nuvos. The normal scheme pension age in alpha is linked to the member's State Pension Age but cannot be before age 65. Further details about the NICS pension schemes can be found at the website <https://www.finance-ni.gov.uk/topics/working-northern-ireland-civil-service/civil-service-pensions-ni>.

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Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and, from 2003-04, the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the NICS pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2015 and do not take account of any actual or potential benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. However, the real increase calculation uses common actuarial factors at the start and end of the period so that it disregards the effect of any changes in factors and focuses only on the increase that is funded by the employer.

Compensation for Loss of Office (Audited Information)

There was no compensation for loss of office payments in respect of officials during 2017-18.

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Staff Report

Staff Costs (Audited Information)

				2017-18 £000	2016-17 £000
	Permanently employed staff*	Others	Minister**	Total	Total
Wages and salaries	34,341	382	-	34,723	36,000
Social security costs	3,345	3	-	3,348	3,509
Other pension costs	3,352	-	-	3,352	8,021
Sub Total	41,038	385	-	41,423	47,530
Less recoveries in respect of outward secondments	(135)	-	-	(135)	(169)
Total net costs***	40,903	385	-	41,288	47,361
Of which:	Charged to Administration	Charged to Programme	Total		
Core Department	27,244	14,044	41,288		
Total net costs	27,244	14,044	41,288		

* There were no staff costs incurred in respect of the Department's Special Adviser in 2017-18. The 2016-17 figures include the cost of the Department's Special Adviser who was paid in the pay band £59,627 - £91,809.

** No Minister was in place during 2017-18.

*** Of the total, no staff costs have been charged to capital in 2017-18 (2016-17: £nil).

Excluded from the total is £1,381,537 (2016-17: £405,466) which has been charged to EU Programmes as Technical Assistance.

The Northern Ireland Civil Service main pension schemes are unfunded multi-employer defined benefit schemes but the Department for the Economy is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2012. This valuation is then reviewed by the Scheme Actuary and updated to reflect current conditions and rolled forward to the reporting date of the DoF Superannuation and Other Allowances Annual Report and Accounts as at 31 March 2018.

For 2017-18, employers' contributions of £3,352k were payable to the NICS pension arrangements (2016-17: £8,016k) at one of three rates in the range 20.8% to 26.3% (2016-17: 20.8% to 26.3%) of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. A new scheme funding valuation based on data as at 31 March 2012 was completed by the Actuary during 2014-15. This valuation was used to determine employer contribution rates for the introduction of alpha from April 2015. For 2018-19, the rates will also range

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from 20.8% to 26.3%, however, the salary bands differ. The contribution rates are set to meet the cost of benefits accruing during 2017-18 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £3,583.93 (2016-17: £4,006.83) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2016-17: 8% to 14.75%) of pensionable pay. Employers also match employee contributions up to 3% (2016-17: 3%) of pensionable pay. In addition, employer contributions of £145.00, 0.5% of pensionable pay (2016-17: £249.51, 0.5%), were payable to the NICS Pension Schemes to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees. Contributions due to the partnership pension providers at the reporting date were £nil. Contributions prepaid at that date were £nil.

Four persons (2016-17: six persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £4,793 (2016-17: £10,905).

Average number of persons employed (Audited Information)

The average number of whole-time equivalent persons employed during the year was as follows:

Activity	Permanent Staff*	Others	Minister	Special advisers	2017-18	2016-17
					Number	Number
					Total	Total
1	1,088	10	-	-	1,098	1,121
Staff engaged on capital projects	-	-	-	-	-	-
Total	1,088	10	-	-	1,098	1,121

*Includes 103 Permanent Staff in respect of Health and Safety Executive for Northern Ireland (HSENI) (2016-17: 111).

Office of Industrial and Fair Employment Tribunals Service

Judicial office holders are covered by the provisions of the Judicial Pensions Scheme (JPS). The terms of the pension arrangements are set out in the provisions of two Acts of Parliament, the Judicial Pensions Act 1981 and the Judicial Pensions & Retirement Act 1993 (JuPRA). The JPS is an unfunded public service scheme, providing pensions and related benefits for members of the judiciary. The cost of benefits accruing for each year of service is shared between the Appointing Bodies and the judicial office-holders.

Following the Hutton Review and the reform of public sector pensions, two new pension schemes, Judicial Pension Scheme (JPS) 2015 and Northern Ireland Judicial Pension Scheme (NIJPS) 2015, were introduced from 1 April 2015. These mirror each other and other public sector career average pension schemes. From 1 April 2015 the Department pays contributions in relation to salaried excepted and devolved salaried Judicial Office

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Holders and excepted fee paid Judicial Office Holders. A subsequent revaluation of the Judicial Pension Schemes resulted in a contribution rate for Appointing Bodies of 38.45% which includes an element of 0.25% as a contribution towards the administrative costs of the schemes.

O'Brien v Ministry of Justice

In 2013, the Supreme Court (and the Court of Justice of the European Union) held that a retired fee paid recorder (Mr O'Brien) was a part-time worker within the meaning of the Directive and Regulations, and was, therefore, eligible to pension entitlement. The cost of providing the pension entitlement for all part-time judges who were fee paid by the Department had been reflected in the financial statements of this Department. The Department is named, amongst others, as a respondent in an ongoing industrial tribunal case involving 'O'Brien' claims by fee-paid judicial office holders.

In 2017-18, the accrual for these costs (£4.3m) has been removed from Other Pension Costs as it is anticipated that costs will be borne through future pension contributions.

Attendance Management

In the last year, HR worked closely with line managers, staff and the support services to tackle the sensitive issue of sickness absence through the consistent application of the processes which underpin absence management.

The projected outturn at 31 March 2018 is 9.8 days (31 March 2017: 10.3 days).

**Reporting of Civil Service and other compensation schemes – exit packages
(Audited Information)**

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	2017-18	2016-17
			Total number of exit packages by cost band	Total number of exit packages by cost band
£10,000 - £25,000	-	-	-	4
£25,000 - £50,000	-	2	2	4
£50,000 - £100,000	-	-	-	1
Total number of exit packages	-	2	2	9
Total resource cost/ £000	-	76	76	310

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (Northern Ireland), a statutory scheme made under the Superannuation (Northern Ireland) Order 1972. Exit costs are accounted for in full in the year of departure. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

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Staff Composition

The table below provides a breakdown of the number of persons employed by the Department as at 31 March 2018, by gender for each of the following groups:

- Directors (interpreted to be the Permanent Secretary, Deputy Secretaries and Departmental Board Members);
- Senior Managers (staff at Senior Civil Servant level that are not included in the Directors Group); and,
- All other employees.

	As at 31 March 2018			As at 31 March 2017 (Restated)		
	Male	Female	Total	Male	Female	Total
Directors	4	1	5	4	1	5
Senior Managers	17	6	23	15	5	20
Employees	461	661	1,122	467	675	1,142
Total*	482	668	1,150	486	681	1,167

**Includes 53 Male, 60 Female, 113 Total, in respect of Health and Safety Executive NI (HSENI) (2016-17: 51 Male, 61 Female, 112 Total).*

Note - the above table includes staff temporarily promoted to Senior Civil Servant grades.

Off-Payroll Engagements

The Department had no 'off-payroll' engagements at a cost of over £58,200 per annum in place during 31 March 2018.

Consultancy and Temporary Staff

During the year to 31 March 2018, the Department spent £451,177 on external consultancy (31 March 2017: £506,652), and £348,595 on temporary staff (31 March 2017: £280,733).

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Number of SCS (or equivalent) staff by band

The following table summarises the number of Senior Civil Servants in post by pay range as at 31 March 2018. Salary ranges represent full-time equivalent rates.

Pay range	Number of SCS staff within ranges as at 31 March 2018	Number of SCS staff within ranges as at 31 March 2017
£125,000 - £130,000	-	1
£115,000 - £120,000	1	-
£90,000 - £95,000	1	1
£85,000 - £90,000	3	3
£75,000 - £80,000	2	1
£70,000 - £75,000	10	11
£65,000 - £70,000	4	4
Total	21	21

Note - The above table includes staff temporarily promoted to Senior Civil Servant grades.

Persons with Disability

The Department follows the Code of Practice of the Northern Ireland Civil Service in aiming to offer equality of opportunity for people with disabilities to make full use of those skills and abilities that they possess.

Equal Opportunities

The Department follows the Northern Ireland Civil Service policy that all eligible persons shall have equal opportunity for employment and advancement on the basis of their ability, qualifications and aptitude for the work.

Consultation with Employees

Throughout the year, in order to maintain and develop the provision of information to and consultation with employees, the Department continued to hold periodic meetings with Trade Union Side through the Departmental Whitley Committee.

Other diversity issues and equal treatment in employment and occupation

The NICS has developed a People Strategy which details the people priorities over the period 2018 to 2021. It places diversity and inclusion at its centre and includes a range of actions that will help accelerate the NICS' ambition to have a truly inclusive workforce culture and to be a service that reflects the society we serve. In addition to these specific actions the NICS will ensure diversity and inclusion is central to everything it does, including how it communicates, recruits, promotes, develops and manages its workforce.

A diversity action plan has been drawn up to promote diversity and inclusion while additional action plans have been drawn up to address specific issues related to gender and disability.

Work on Lesbian, Gay, Bisexual, and Transgender (LGB&T) issues has included a survey of staff and the creation of the NICS LGB&T staff network. Further developments

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in the area are planned including membership of the Stonewall NI Diversity Champions network and the development of advice on Transgender issues.

The NICS continues to carry out its statutory obligations under fair employment legislation including the annual return to the Equality Commission for NI and the triennial reviews of the workforce profile which are published on the Department of Finance website.

Employee Consultation and/ or Participation; Trade Union Relationships

The Department of Finance is responsible for the policy on how the Northern Ireland Civil Service consults and negotiates with its staff through industrial relations. The centralised human resource function, NICS HR, has continued to consult on central matters with all recognised Trade Unions (Non-industrial Trades Unions: Northern Ireland Public Service Alliance (NIPSA), First Division Association (FDA), Prison Officers' Association (POA), Industrial Trades Unions: Unite the Union (Unite), GMB), throughout the year. Arrangements also exist at local level within each Department to consult on matters specific to that Department or individual business area.

A Review of NICS Trade Union Arrangements is ongoing. Phase 1 of the review culminated in a new Trade Union Arrangements chapter, published in the NICS HR Handbook in January 2016. Phase 2 of the Review is at the planning stage.

Health and Safety at Work

The Department complies with the requirements of the Health and Safety at Work (NI) Order 1978 and all other related legislation and codes of practice. It recognises that good health and safety management affects every aspect of our business and that it is critical to the effective delivery of our services and the achievement of corporate objectives and targets. The Department is fully committed to the health, safety and welfare of its staff at work. It has robust management systems and practices to ensure that health and safety risks are managed sensibly, responsibly and proportionately.

Staff Relations

Career Development

The NICS is committed to career development, acknowledging that skilled and engaged staff are an essential resource in meeting current and future business needs.

This NICS Career Development Policy emphasises that career development is a collaborative process between individual staff members, line managers, and Departments, and takes account of the NICS Competency Framework and Performance Management System. As well as the individual's role in managing their career development, the NICS provides opportunities to enhance the skills, capabilities and performance of staff so that they, in turn, can contribute to achieving corporate objectives.

There is a wide range of career development options available within the NICS and within the Career Development Policy that support various career development

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interventions including secondment and interchange opportunities, elective transfers, temporary promotion, job rotation, job shadowing, as well as mentoring.

In line with the NICS People Strategy 2018 - 2021 further development in the area is planned, including Talent Management Proposals to support a more corporate approach to talent management across the NICS.

Learning & Development

The NICS HR Centre for Applied Learning (CAL) purpose is to enable the achievement of the Programme for Government (PfG) outcomes through the delivery of generic learning and development services aligned to the NICS People Strategy. The CAL approach to delivering its services is designed to respond to the changing needs of the NICS and includes the following components:

- Offering a variety of learning delivery channels to enable flexible access to learning;
- Providing an enhanced Learning and Development experience where staff can focus on their personal development using learning interventions that are aligned to corporate need, PfG, People Strategy, NICS of the Future and the NICS Competency Framework;
- Blending different learning solutions into coherent learning pathways;
- Value for money learning through the use of technology to provide concise and focused modules of learning;
- Develop practical capability for learners that incorporates the latest tools and techniques; and,
- Work collaboratively with NICS HR colleagues, Suppliers, Departments and the NICS Professions to identify, develop and deliver current and future learning interventions.

Pay policy

Under the Civil Service (NI) Order 1999, the Department of Finance is responsible for the pay arrangements of NICS civil servants (apart from those agencies, non-ministerial government departments and other bodies with an agreed pay delegation). The pay award system aims to:

- a) be a system which will help to recruit, retain and motivate staff to perform efficiently the duties required of them;
- b) encourage staff to improve their individual performance by providing a direct and regular link between satisfactory performance and pay;
- c) ensure equity of treatment in respect of pay in accordance with legal requirements and the equal opportunities policy of the NICS;
- d) secure the confidence of staff that their pay will be determined fairly;
- e) secure the confidence of the public and their representatives in the system for determining the pay of the staff; and,
- f) enable the Government to reconcile its responsibilities for the control of public expenditure with its responsibilities as an employer.

Current pay scales are available online. NI public sector pay guidance for 2017 is now in place.

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STATEMENT OF ASSEMBLY SUPPLY AND SUPPORTING NOTES (AUDITED INFORMATION)

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FRm) requires the Department for the Economy to prepare a Statement of Assembly Supply (SOAS) and supporting notes to show resource outturn against the Supply Estimate presented to the Assembly, in respect of each Request for Resources.

Summary of Resource Outturn 2017-18

Request for Resources	Note	Estimate			Outturn			2017-18 £000	2016-17 £000
		Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
A	SOAS1	1,061,792	(74,195)	987,597	984,569	(68,619)	915,950	71,647	1,077,137
Total resources	SOAS2	1,061,792	(74,195)	987,597	984,569	(68,619)	915,950	71,647	1,077,137
Non-operating cost Accruing Resources		-	(95,002)	(95,002)	-	(95,002)	(95,002)	-	(76,371)

Net cash requirement 2017-18

	Note	Estimate	Outturn	2017-18 £000	2016-17 £000
				Net total outturn compared with Estimate: Outturn saving/ (excess)	Outturn
Net cash requirement	SOAS3	1,195,238	1,126,003	69,235	1,184,238

Summary of income payable to the Consolidated Fund

In addition to Accruing Resources, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

Note	Income	2017-18 £000 Forecast	Income	2017-18 £000 Outturn
		Receipts		Receipts
Total	SOAS4	-	3,129	222

Explanations of variances between Estimate and outturn are given in Note SOAS1 and in the Performance Report.

The notes on pages 107 to 150 form part of these accounts.

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SOAS1 ANALYSIS OF NET RESOURCE OUTTURN BY FUNCTION

							2017-18 £000	2016-17 £000			
							Outturn	Estimate			
							Net Total	Net Total compared with Estimate	Net Total outturn compared with Estimate, adjusted for virements	Prior- year outturn	
Admin	Other current	Grants	Gross resource expenditure	Accruing Resources	Net Total	Net Total	Estimate	virements	outturn		
Request for Resources A:											
<i>To promote a competitive, sustainable and inclusive economy through investment in skills, economic infrastructure, research and innovation, and business development</i>											
Economic Development & Infrastructure	7,895	5,530	9,358	22,783	(234)	22,549	22,693	144	1,099	38,790	
Economic Development & Infrastructure – Repayment of Assistance in respect of the Presbyterian Mutual Society	-	-	-	-	(2,298)	(2,298)	(2,298)	-	-	(2,482)	
Invest Northern Ireland and Tourism	487	2	-	489	(2)	487	593	106	106	527	
Employment & Skills	20,277	6,393	77,308	103,978	(7,686)	96,292	97,897	1,605	755	105,923	
Student Support & Higher Education	2,325	161,191	338,968	502,484	(3,190)	499,294	546,488	47,194	47,194	553,914	
Tourism Ireland Ltd	156	-	-	156	-	156	152	(4)	-	156	
InterTradeIreland	163	-	-	163	-	163	171	8	4	138	
Representation & Regulatory Services	1,132	10,851	286	12,269	(3,838)	8,431	8,949	518	413	12,711	
EU Structural Funds – ERDF Support for Economic Development	-	-	826	826	(483)	343	358	15	15	328	
EU Programmes	-	-	22,430	22,430	(13,585)	8,845	8,868	23	23	15,238	
EU Community Initiative	-	-	1,275	1,275	(1,081)	194	193	(1)	(1)	-	
EU Peace	-	-	954	954	(811)	143	155	12	12	-	
Total	32,435	183,967	451,405	667,807	(33,208)	634,599	684,219	49,620	49,620	725,243	

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							2017-18 £000	2016-17 £000			
							Outturn	Estimate			
							Net Total	Net Total compared with Estimate	Net Total outturn compared with Estimate, adjusted for virements	Prior- year outturn	
Admin	Other current	Grants	Gross resource expenditure	Accruing Resources	Net Total	Net Total	Net Total	Net Total	Prior- year outturn		
Annually Managed Expenditure:											
Provisions	-	(2,614)	-	(2,614)	-	(2,614)	386	3,000	3,000	1,824	
NI Renewable Heat Incentive	-	-	22,300	22,300	-	22,300	22,300	-	-	18,120	
Student Support	-	(61,428)	-	(61,428)	(35,411)	(96,839)	(98,400)	(1,561)	(1,561)	(78,655)	
Revaluations	-	(116)	-	(116)	-	(116)	(109)	7	7	(93)	
Total	-	(64,158)	22,300	(41,858)	(35,411)	(77,269)	(75,823)	1,446	1,446	(58,804)	
Non-Budget:											
Invest NI	-	-	123,616	123,616	-	123,616	135,671	12,055	11,931	166,802	
Northern Ireland Tourist Board	-	-	17,000	17,000	-	17,000	22,584	5,584	5,584	23,960	
General Consumer Council for Northern Ireland	-	-	1,315	1,315	-	1,315	1,315	-	-	1,466	
Health and Safety Executive NI	-	-	776	776	-	776	875	99	99	687	
Tourism Ireland Ltd	-	-	12,568	12,568	-	12,568	12,692	124	124	12,194	
InterTradeIreland	-	-	2,985	2,985	-	2,985	3,051	66	66	3,888	
Teachers' Premature Retirement – on-going liabilities	-	2,003	-	2,003	-	2,003	2,006	3	3	1,998	
Construction Industry Training Board	-	-	-	-	-	-	1	1	1	50	
Labour Relations Agency	-	-	4,217	4,217	-	4,217	4,093	(124)	-	3,630	
Further Education Colleges	-	-	178,963	178,963	-	178,963	181,486	2,523	2,523	181,640	
Higher Education Colleges	-	-	5,518	5,518	-	5,518	5,583	65	65	5,608	
Northern Ireland Screen	-	-	1,049	1,049	-	1,049	1,049	-	-	352	
Notional Charges	8,610	-	-	8,610	-	8,610	8,795	185	185	8,423	
Total Non-Budget	8,610	2,003	348,007	358,620	-	358,620	379,201	20,581	20,581	410,698	
Resource Outturn	41,045	121,812	821,712	984,569	(68,619)	915,950	987,597	71,647	71,647	1,077,137	

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Explanation of the variation between Estimate and Outturn (2017-18)

After virement, the most significant variances were as follows:

- (1) DEL
- Outturn was £49.6m lower than the SSE position, mainly because impairments to student loans were lower than forecast, as a result of demand for new loan products being lower than anticipated together with the impact of updated OBR economic forecasts.
- (2) AME
- Outturn was £1.4m less than the SSE position due to the changes to Student Loan effective interest during the year and a reduction in the Harland & Wolff provision.
- (3) Non-Budget
- Outturn was lower by £20.6m due mainly to the grant in aid requirements of NDPBs reducing due to EU funding being received by those organisations.

SOAS2 Reconciliation of Outturn to Net Operating Cost

				2017-18 £000	2016-17 £000
	<i>Note</i>	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	SOAS1	915,950	987,597	71,647	1,077,137
Non-supply income (CFERs)	SOAS4	(130)	(44)	86	(222)
Non-supply expenditure:					
Redundancy Fund Payments	4	4,823	-	(4,823)	5,424
Net Operating Cost in Statement of Comprehensive Net Expenditure		920,643	987,553	66,910	1,082,339

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SOAS3 Reconciliation of Net Resource Outturn to Net Cash Requirement

	<i>Note</i>	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/(excess) £000
Resource Outturn	SOAS2	987,597	915,950	71,647
Capital				
Acquisition of property, plant and equipment	6,7	344	127	217
Financial Asset Investments	12	-	-	-
Investments – Student Loans funding	11.1	397,601	345,502	52,099
Non-operating Accruing Resources				
Student loan repayments applied		(87,002)	(87,002)	-
PMS Loan repayment	12	(8,000)	(8,000)	-
Net Book Value of asset disposals		-	(5)	5
Accruals to cash adjustments				
<i>Adjustments to remove non-cash items:</i>				
Depreciation and Amortisation	4	(141)	(111)	(30)
Revaluation of Investment		-	116	(116)
Notionals		(8,795)	(8,610)	(185)
New provisions and adjustment to previous provisions		14	2,614	(2,600)
Other non-cash items		(148,887)	(61,648)	(87,239)
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) Receivables		15,000	12,171	2,829
Increase/(decrease) Financial Investment		-	(2,409)	2,409
(Increase)/decrease Payables		44,000	13,382	30,618
Changes in payables falling due after more than one year	17	-	449	(449)
Use of provisions & financial liabilities	11.2,18	3,507	3,477	30
Net cash requirement		1,195,238	1,126,003	69,235

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The main reasons for the net cash requirement being lower than anticipated relate to demand for student loans being lower than anticipated, together with the assumptions made in respect of timing of receipts and payments.

SOAS4 Income payable to the Consolidated Fund

SOAS4.1 Analysis of income payable to the Consolidated Fund

In addition to Accruing Resources, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

	Note	Forecast 2017-18 £000		Outturn 2017-18 £000	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
Operating income and receipts – excess Accruing Resources		-	-	-	-
Other operating income and receipts not classified as Accruing Resources		-	-	130	222
		-	-	130	222
Non-operating income and receipts – excess Accruing Resources	SOAS6	-	-	2,999	-
Total income payable to the Consolidated Fund		-	-	3,129	222

**SOAS5 Reconciliation of income recorded within the Statement of
Comprehensive Net Expenditure to operating income payable to the
Consolidated Fund**

	Note	2017-18 £000	2016-17 £000 (restated)
Operating income	5	129,592	105,796
Income authorised to be Accruing Resources		(68,482)	(57,146)
Income netted off in gross sub head grossed up in Statement of Comprehensive Net Expenditure		(60,980)	(48,428)
Operating income payable to the Consolidated Fund	SOAS4.1	130	222

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SOAS6 Non-operating income – Excess Accruing Resources

	2017-18 £000	2016-17 £000
PMS Loan repayments	-	3,436
Student Loan repayments	<u>2,999</u>	<u>10,421</u>
Non-operating income – Excess Accruing Resources	<u>2,999</u>	<u>13,857</u>

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OTHER ASSEMBLY ACCOUNTABILITY DISCLOSURES

Payment of Suppliers

The Department is committed to the prompt payment of suppliers of goods and services in accordance with the Confederation of British Industry's prompt payer's code and British Standard BS 7890. Unless otherwise stated in the contract, payment is due within 30 days of receipt of the goods or services, on presentation of a valid invoice or similar demand, whichever is later.

In the year ended 31 March 2018, 97% of invoices from suppliers were paid within the timescale noted above (31 March 2017: 96%). No amounts were paid to suppliers in interest under the Late Payment of Commercial Debts (Interest) Act 1998.

In November 2008, Finance Minister Nigel Dodds set a target for all Northern Ireland Departments to pay supplier invoices within 10 working days of receipt in order to help local business in the current economic climate. The Department is committed to this target and for the year ended 31 March 2018, 93% of invoices from suppliers were paid within this timescale (31 March 2017: 90%).

The following link to the Account NI website discloses Northern Ireland Departments' performance both in terms of paying invoices within 30 days and 10 days: [https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/NICS%20Prompt%20Payment%20Table%20for%202017-2018 JAN18.pdf](https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/NICS%20Prompt%20Payment%20Table%20for%202017-2018%20JAN18.pdf).

HM Treasury Cost Allocation

The Department has complied with the cost allocation and charging requirements set out in HM Treasury (HMT) and the Office of Public Sector Information guidance, applicable to the Department as a Public Sector Information Holder.

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i. Regularity of Expenditure (Audited Information)

Losses Statement

	2017-18	2016-17
Total number of losses	834	1,505
Total value of losses (£000)	595	1,307
Cash losses	2	2
Claims abandoned	832	1,502
Administrative write-offs	-	1

Special Payments

	2017-18	2016-17
Total number of special payments	1	1
Total value of special payments (£000)	-	1

There were no cases over £250,000 in 2017-18 or 2016-17.

ii. Fees and Charges (Audited Information)

	2017-18 (Surplus) /Deficit			2016-17 (Surplus) /Deficit		
	Income £000	Full Cost £000	/Deficit £000	Income £000	Full Cost £000	/Deficit £000
Insolvency Account	(3,477)	4,306	829	(3,270)	4,188	918

iii. Remote Contingent Liabilities (Audited Information)

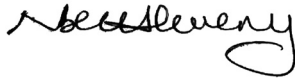
In 2016, the UK Government announced that the Government would guarantee the following EU funded projects after the UK has left the EU:

- a. All structural and investment fund projects signed before the Autumn Statement 2016;
- b. Structural and investment fund projects signed after the Autumn Statement and before we leave the EU, so long as they are good value for money and in line with domestic strategic priorities; and,
- c. The payment of awards where UK organisations successfully bid directly to the European Commission on a competitive basis for EU funding projects while we remain in the EU.

The financial settlement has now been signed-off by both UK and EU Commission negotiators in a draft Withdrawal Agreement and welcomed by the EU-27 at the March European Council. The guarantee will therefore only be called in the event that the

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Withdrawal Agreement is not ratified. As a result, and due to the EU funding the Department for the Economy provides, an unquantifiable contingent liability is disclosed.



**Noel Lavery
Accounting Officer
26 June 2018**

**DEPARTMENT FOR THE ECONOMY
THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE
NORTHERN IRELAND ASSEMBLY
for the year ended 31 March 2018**

I certify that I have audited the financial statements of the Department for the Economy for the year ended 31 March 2018 under the Government Resources and Accounts Act (Northern Ireland) 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Assembly Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the Department's affairs as at 31 March 2018 and of its net expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance directions issued thereunder.

Qualified opinion on regularity

In my opinion, except for the £7.9 million of expenditure on the non-domestic RHI scheme and the £2.1 million of expenditure on the Skills Growth Programme through Invest Northern Ireland described in the basis of opinions section below, in all material respects:

- the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I was unable to obtain sufficient evidence that the Department's controls over spending on the non-domestic Renewable Heat Incentive (RHI) scheme were adequate to prevent or detect abuse of the scheme. Because of this lack of evidence I was unable to form an opinion on whether the expenditure on the scheme of £21.7 million had been applied for the purposes intended by the NI Assembly.

Included within this expenditure is an amount of £7.9 million on which approval had not been granted by the Department of Finance. This arose because the Department had been due to seek re-approval of the scheme from the Department of Finance from 1 April 2015, but this approval was not sought until the end of October 2015. During this seven month period in 2015-16, 788 applications were accepted onto the scheme by the Department and as there was no approval in place for them from the Department of Finance, the £7.9 million expenditure incurred on them in 2017-18 is irregular. Consequently, my regularity opinion has been qualified in respect of this expenditure, as the expenditure does not conform to the authorities which govern it.

**DEPARTMENT FOR THE ECONOMY
THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE
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In addition, the Department of Finance did not provide approval for grant expenditure which had been committed to during the period 1 January 2016 to 5 April 2018 under the Skills Growth Programme, through Invest Northern Ireland. In 2017-18 Invest Northern Ireland paid out £2.1 million in relation to grants under the Skills Growth Programme which were committed to during the period in which it did not have approval from the Department of Finance. As the Department has overall responsibility for ensuring that approvals are obtained, my regularity opinion has also been qualified in respect of this expenditure, as the expenditure does not conform to the authorities which govern it.

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom.' My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of this certificate. My staff and I are independent of the Department for the Economy in accordance with the ethical requirements of the Financial Reporting Council's Revised Ethical Standard 2016, and have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinions.

Emphasis of matter – Uncertainties inherent in the valuation of student loans

Without qualifying my opinion, I draw attention to the disclosures made in the Performance Report and notes 1.9.1, 10 and 11 to the financial statements concerning the uncertainties inherent in the valuation of student loans. As set out in these disclosures and notes, given the long term nature for the recovery of loans, the number and volatility of the assumptions underpinning their valuation, a considerable degree of uncertainty remains over the recoverable amounts of the loans issued. Significant changes to the valuation could occur as a result of subsequent information and events which are different from the current assumptions adopted by the Department. My opinion is not modified in this respect.

Other Information

The Accounting Officer is responsible for the other information included in the annual report. The other information comprises the information included in the annual report other than the financial statements, the parts of the Accountability Report described in the report as having been audited, my audit certificate and report. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

**DEPARTMENT FOR THE ECONOMY
THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE
NORTHERN IRELAND ASSEMBLY
for the year ended 31 March 2018**

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Department of Finance directions made under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001.

I am required to obtain evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals and that those totals have not been exceeded. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Matters on which I report by exception

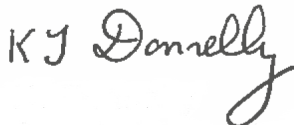
I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records; or

**DEPARTMENT FOR THE ECONOMY
THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE
NORTHERN IRELAND ASSEMBLY
for the year ended 31 March 2018**

- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with the Department of Finance's guidance.

My detailed observations are included in my report attached to the financial statements.



*KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU*

29 June 2018

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2018**

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

	<i>Note</i>	2017-18 £000	2016-17 £000
Other Operating Income	5	(127,114)	(103,138)
Total Operating Income		(127,114)	(103,138)
Staff costs	3,4	41,288	47,361
Purchase of Goods & Services	3,4	13,492	11,207
Depreciation and impairment charges	4	111	115
Provision Expense	4	(2,495)	1,947
Other Operating Expenditure	3,4	997,839	1,127,505
Total Operating Expenditure		1,050,235	1,188,135
Net Operating Expenditure		923,121	1,084,997
Finance Income	5	(2,478)	(2,658)
Net Expenditure for the year		920,643	1,082,339
Other Comprehensive Net Expenditure Items that will not be reclassified to net operating expenditure:			
Net (gain)/loss on revaluation of Property, Plant and Equipment/Intangibles		(50)	(50)
Comprehensive Net Expenditure for the year		920,593	1,082,289

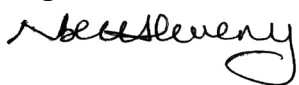
The notes on pages 107 to 150 form part of these accounts.

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION
as at 31 March 2018**

This statement presents the financial position of the Department for the Economy. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

	<i>Note</i>	2018 £000	2017 £000
Non-current assets:			
Property, plant and equipment	6	2,290	2,267
Intangible Assets	7	801	759
Financial Assets – Student loans	11.1	2,302,930	2,112,002
Financial Assets – Other	12	103,019	116,172
Total non-current assets		<u>2,409,040</u>	<u>2,231,200</u>
Current assets:			
Trade and other receivables	16	82,897	69,243
Financial Assets	12	15,747	10,409
Cash and cash equivalents	15	572	476
Total current assets		<u>99,216</u>	<u>80,128</u>
Total assets		<u>2,508,256</u>	<u>2,311,328</u>
Current liabilities:			
Trade and other payables	17	(103,063)	(114,862)
Provisions	18	(3,000)	(5,008)
Total current liabilities		<u>(106,063)</u>	<u>(119,870)</u>
Total Assets less Current Liabilities		<u>2,402,193</u>	<u>2,191,458</u>
Non-current liabilities:			
Provisions	18	(51,542)	(55,204)
Other payables	17	-	(449)
Financial Liabilities	11.2	(2,789)	(3,660)
Total non-current liabilities		<u>(54,331)</u>	<u>(59,313)</u>
Total assets less total liabilities		<u>2,347,862</u>	<u>2,132,145</u>
Taxpayers' equity & other reserves:			
General fund		2,346,291	2,130,587
Revaluation reserve		1,571	1,558
Total equity		<u>2,347,862</u>	<u>2,132,145</u>

Signed



**Noel Lavery
Accounting Officer
26 June 2018**

The notes on pages 107 to 150 form part of these accounts.

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS
for the year ended 31 March 2018**

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Department during the reporting period. The statement shows how the Department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Department's future public service delivery.

	Note	2017-18 £000	2016-17 £000
Cash flows from operating activities			
Net operating expenditure	SOAS2	(920,643)	(1,082,339)
Adjustments for non-cash transactions	3,4,5	67,639	139,178
(Increase)/Decrease in trade and other receivables <i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>	16	(13,654)	13,572
<i>Capital Receivables – Accrued Interest</i>	16	469	12,054
Increase/(Decrease) in trade and other payables <i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>	12	-	-
	17	(24,659)	3,639
Use of provisions	17	11,086	(13,803)
	11.2,18	(3,477)	(4,413)
Net cash inflow/(outflow) from operating activities	SOAS3	(883,239)	(932,112)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(66)	(44)
Purchase of intangible assets	7	(43)	(612)
Proceeds of disposal of property, plant and equipment		3	-
Loans to other Bodies	12	-	(3,669)
Repayment of Loans - principal	12	8,000	9,500
Repayment of Loans - interest	12	2,409	2,601
Student Loan Funding	11.1	(345,641)	(331,564)
Student Loan Repayments	11.1	89,411	80,067
Net cash inflow/(outflow) from investing activities		(245,927)	(243,721)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		1,111,994	1,168,809
From the Consolidated Fund (Supply) – prior year		15,429	3,698
Capital element of payments in respect of finance leases		-	-
Net financing from the National Insurance Fund		3,507	6,165
Net financing		1,130,930	1,178,672
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
Payments of amounts due to the Consolidated Fund		1,764	2,839
		(14,079)	(637)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund			
		(12,315)	2,202
Cash and cash equivalents at the beginning of the period	15	(1,032)	(3,234)
Cash and cash equivalents at the end of the period	15	(13,347)	(1,032)

The notes on pages 107 to 150 form part of these accounts.

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for the year ended 31 March 2018**

This statement shows the movement in the year on the different reserves held by the Department for the Economy, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. Other earmarked reserves are shown separately where there are statutory restrictions of their use. The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

		General Fund £000	Revaluation Reserve £000	Taxpayers' Equity £000
	<i>Note</i>			
Balance at 31 March 2016		2,028,885	1,543	2,030,428
Net Assembly Funding		1,168,809	-	1,168,809
National Insurance Fund		5,424	-	5,424
Supply (payable)/receivable adjustment	16	15,429	-	15,429
CFERs payable to the Consolidated Fund	17	(14,079)	-	(14,079)
Comprehensive Net Expenditure for the Year	SOAS2	(1,082,339)	50	(1,082,289)
Notional costs	3	8,325	-	8,325
Auditor's remuneration	3	98	-	98
Other reserves movements including transfers		35	(35)	-
Balance at 31 March 2017		2,130,587	1,558	2,132,145
Net Assembly Funding		1,111,994	-	1,111,994
National Insurance Fund		4,826	-	4,826
Supply (payable)/receivable adjustment	16	14,009	-	14,009
CFERs payable to the Consolidated Fund	17	(3,129)	-	(3,129)
Comprehensive Net Expenditure for the Year	SOAS2	(920,643)	50	(920,593)
Notional costs	3	8,512	-	8,512
Auditor's remuneration	3	98	-	98
Other reserves movements including transfers		37	(37)	-
Balance at 31 March 2018		2,346,291	1,571	2,347,862

The notes on pages 107 to 150 form part of these accounts.

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018**

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2017-18 Government Financial Reporting Manual (FReM) issued by the Department of Finance (formerly the Department of Finance and Personnel). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Department for the Economy for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Department are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Department to prepare one additional primary statement. The Statement of Assembly Supply and supporting notes at pages 89 to 95 show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

Merger accounting

Following the restructuring of Northern Ireland Civil Service (NICS) Departments from twelve to nine, the former Department of Enterprise Trade and Investment (DETI) together with functions from the former Department for Employment and Learning (DEL) and functions from the former Department of Culture, Arts and Leisure (DCAL) became the new Department for the Economy (DfE) on 9 May 2016. This constituted a Machinery of Government change requiring merger accounting principles to apply to the 2016-17 financial statements for DfE. The functions transferred to DfE in May 2016 have, therefore, been accounted for as transferring from the beginning of the reporting period as required under merger accounting and now form the comparative figures in these accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of investment property, property, plant and equipment, intangible assets and certain financial assets and liabilities.

1.2 Property, Plant, Equipment and Intangible Assets

Expenditure on property, plant and equipment of over £1,000 is capitalised.

Software and associated licences costing greater than £1,000 are capitalised under intangible assets. Licences running for a year or less than one year are not capitalised regardless of value. Databases are capitalised where the specific recognition criteria of IAS 38 are met.

DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018

On initial recognition property, plant and equipment and intangible assets are measured at cost including any expenditure, such as installation, directly attributable to bringing them into working condition.

All property, plant and equipment and intangible assets are carried at fair value.

With the exception of land and buildings and items under construction, fair value is estimated by restating the value annually by reference to indices compiled by the Office of National Statistics (ONS).

Subsequent expenditure on an asset that meets the criteria in compliance with International Accounting Standards (IAS) 16 (Property Plant and Equipment) is capitalised, otherwise it is written off to revenue.

1.3 Depreciation

Property, plant and equipment and intangible assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Depreciation is charged in the month of acquisition; none is charged in the month of disposal. The base useful lives of assets are as follows:

Buildings	50 years
Plant and Machinery	3 - 20 years
Fixtures and fittings	3 - 10 years
Computer equipment and software	3 - 10 years
Transport equipment	3 - 10 years
Intangibles (Software and Databases)	2 - 30 years

Valuations of property, plant and equipment and intangible assets are based on a review of values as at the reporting date. No depreciation is provided on freehold land as it has an unlimited or very long established useful life. Items under construction are not depreciated until they are commissioned.

Legal title to the Government-owned land and specialised buildings occupied by the Department rests in the Department of Finance.

The remaining buildings used by the Department (some of which have shared occupancy) are part of the Government Estate. As rents are not paid for these properties an assessment of the rent that would be payable on an open market basis has been charged in order to reflect the full economic cost.

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018**

1.4 *Impairments*

At each reporting period end, the Department checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount.

If there has been an impairment loss, the asset is written down to its recoverable amount, with the loss charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to the Statement of Comprehensive Net Expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to the Statement of Comprehensive Net Expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

1.5 *Investments*

Financial interests in bodies that are outside the Departmental boundary are treated as non-current asset investments since they are held for the long term.

1.6 *Investment in Associates*

An associate is an entity over which the Department is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or joint control over those policies. Investments in associates are carried at the Department's share of the net assets of the associate.

1.7 *Operating Income*

Operating income is income that relates directly to the operating activities of the Department. It comprises effective interest (including student loans), income from the European Union in support of Departmental activities, fees and charges for services provided, on a full cost basis, to external customers and public repayment work and other income.

It includes not only the Department's accruing resources but also income payable to the Consolidated Fund, which is treated as operating income.

Operating income is stated net of Value Added Tax (VAT).

DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018

1.8 Administration and Programme Expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in FReM by the Department of Finance.

Administration costs reflect the costs of running the Department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs reflect non-administration costs, including delivery of frontline services, payments of grants and other disbursements by the Department.

1.9 Financial Assets

The Department measures and presents financial instruments in accordance with IAS 32, IAS 39 and IFRS 7 as modified by the FReM. The Department holds financial assets in the form of loans to students, loans to Catalyst Inc (formerly Northern Ireland Science Park) and Presbyterian Mutual Society, as well as trade receivables, cash and cash equivalents. Financial assets which are due to be repaid within one year are shown within current assets on the Statement of Financial Position.

1.9.1 Student Loan Valuation

The Department accounts for a share of the UK totals of student loan assets administered by the Student Loans Company Limited and related financial liabilities using information on the domicile of student receivables supplied by the Student Loans Company Limited on the Northern Ireland share of the relevant balances and transactions.

Student loans are currently issued under Articles 3 and 8(4) of the Education (Student Support) (Northern Ireland) Order 1998. The Department issues income contingent loans where repayments are calculated as a percentage of earnings in excess of a threshold (2017-18: £17,775, and from 1 April 2018 the threshold will be £18,330) and are collected by HMRC through the tax system. In cases where individuals work outside the UK tax system, or repay early, payments are made directly to the Student Loans Company Limited.

Measurement and carrying values

In accordance with IAS 39, Student Loans are classified as Loans and Receivables and are recorded in the Accounts at amortised cost. This involves the value of the loans issued being discounted to net present value using the effective

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018**

interest rate method. The effective interest rate for student loans is the higher of the rate intrinsic to the instrument, and the real long term discount rate as set by HMT. The rate is based on RPI plus 0.7%, which is the HMT discount rate.

The net present value calculation also takes account of an estimate of the future cost of policy write offs (“deferment and default impairment”). This reflects the fact that not all of the loans issued will be recoverable due to death, disability or age of the student.

The Department considers that the carrying value as described above is a reasonable approximation of the fair value of student loans, in the absence of an active market, readily observable market trends or similar arm’s length transactions. A valuation technique is used to estimate the present value of future cash flows, and the outputs of this modelling provide the basis for the net present value calculations and the estimate of irrecoverable amounts due to policy decisions.

Income Contingent loans are subsidised as students are only charged interest equivalent to the rate of inflation, or Bank of England base rate plus 1% whichever is the lower (‘the Base Rate Cap’). The Department estimates the future cash flows arising from repayments, and discounts these at RPI plus 0.7% to represent the Government’s cost of borrowing and therefore to determine the current value of the loans. The Department increases or decreases the accumulated amortisation based on a percentage of loans issued in year. The percentage is calculated using a modelling tool which takes into account borrower behaviour, earnings on graduation and other assumptions.

There are significant judgements applied by the Department in assessing the actual likely costs and impairments will be affected by the assumptions used. These are formally reviewed by the Department each year and amounts included reflect the Department’s current estimate. Disclosures relating to risk can be found in Note 10 while further details of the movements in the loan valuation can be found in Note 11.

1.9.2 *Other Financial Assets*

Current financial assets, such as trade receivables and cash, are measured at amortised cost as a reasonable approximation of fair value.

1.10 *Financial Liabilities*

Financial liabilities are measured at amortised cost. Long term financial liabilities are discounted where material.

Financial liabilities include legal or constructive obligations for student support cost related to student loans which are of uncertain timing or amount at the reporting date on the basis of the best estimate of the expenditure required to settle the

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018**

obligation. Where the effect of the time value of money is significant the estimated risk adjusted cash flows are discounted using the Treasury discount rate for provisions.

1.11 *Employee Benefits including Pensions*

Under the requirements of IAS 19 Employee Benefits, staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave that has been earned at the year end. This cost has been estimated using data held on the payroll system.

Past and present employees are covered by the provisions of the Civil Service Pension Schemes in Northern Ireland. These defined benefit schemes are unfunded. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Civil Service Pension Schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the Pension Schemes. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

The Department is required to meet the additional cost of benefits beyond the normal Civil Service Pension Schemes benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and this is binding on the Department.

1.12 *European Union (EU) Income*

All income from the EU is separately identified and is released to the Statement of Comprehensive Net Expenditure in the period in which the underlying activity takes place.

1.13 *Notional costs*

Some of the costs directly related to the running of the Department are borne by other Departments and are outside the Department's vote. These costs have been included in these accounts on the basis of the estimated cost incurred by the providing Department.

1.14 *Value Added Tax*

Where output VAT is charged or input VAT is recoverable, the amounts are stated net of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property, plant and equipment. VAT is recoverable on a Departmental basis.

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018**

1.15 Grants Payable

Grants payable, which include the Renewable Heat Incentive scheme, are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs.

In line with FReM, Grant in Aid paid to Non-Departmental Public Bodies is accounted for on a cash basis.

1.16 Provisions

The Department provides for legal or constructive obligations, which are of uncertain timing or amount at the reporting date on the basis of the best estimate of the expenditure required to settle the obligation where this can be determined. As shown in Note 18, this includes:

- the cost of paying the pensions of employees who retire early from the date of their retirement until they reach normal pensionable age;
- the cost of paying Long Service Awards in respect of Judiciary relating to the Office of the Industrial and Fair Employment Tribunals; and,
- the cost of the Department's liability to Harland and Wolff. During 2016-17, an Actuarial Review of the Department's liability to Harland and Wolff plc was completed. The review provided updated expected future cash flows, discounted to allow for the time value of money. The cash flows are quoted in nominal amounts reflecting assumptions for claim inflation and, consequently, in this situation HM Treasury does not mandate the discount rate to be used. The report therefore applies the rates attaching to the UK Government Liability Yield Curves as published by the Bank of England to approximate a conservative return for hypothetical investments with duration matching the expected pay out of liabilities.

1.17 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the Department discloses for Assembly reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to the Assembly in accordance with the requirements of Managing Public Money Northern Ireland.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to the Assembly separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to the Assembly.

**DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018**

1.18 *Third Party Assets*

Insolvency Account

The Department's Insolvency Account holds money received in respect of company liquidations, bankruptcies and estates of deceased insolvents, pending authorised appropriation. This is not a Departmental asset and is not included in the accounts, since neither the Department nor Government more generally has a direct beneficial interest in it.

Northern Ireland National Insurance Fund

The Department acts as agent for the Northern Ireland National Insurance Fund in relation to various aspects of the Employment Rights (Northern Ireland) Order 1996. The transactions and balances arising are reflected in the accounts of the Northern Ireland National Insurance Fund and are not included in these financial statements.

1.19 *Foreign Exchange*

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction. At the end of the reporting period monetary items are translated at the closing rate applicable at the reporting date. Translation differences are charged directly to the Statement of Comprehensive Net Expenditure.

1.20 *Early Retirement Costs*

The Department is required to meet the additional cost of benefits beyond the normal PCSPS (NI) benefits in respect of employees who retire early.

1.21 *Cash and Cash Equivalents*

Cash and cash equivalents are comprised entirely of cash on hand. The Department does not have any demand deposits or any short term, highly liquid investments.

1.22 *Critical Accounting Estimates and Key Judgements*

As a result of the uncertainties inherent in all business activities, many items in financial statements cannot be measured with precision but can only be estimated. Where estimates have been required in order to prepare these financial statements in conformity with FReM, management has used judgements based on the latest available, reliable information. Management continually review estimates to take account of any changes in the circumstances on which the estimate was based or as a result of new information or more experience.

DEPARTMENT FOR THE ECONOMY
FINANCIAL STATEMENTS
NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS
for the year ended 31 March 2018

The most significant area involving accounting estimates and key judgements is the carrying value of student loans. Information on these estimates and judgements are shown at Note 10 and Note 11.

In addition, property market conditions and the option to extend the realisation date of the investment portfolio are important estimation considerations for the loan to Presbyterian Mutual Society. As regards provision in respect of Harland and Wolff plc, estimation techniques included percentage apportionment between expected settlement values and legal costs to estimate total claim costs of existing claims, projected number of future claims and estimated recoveries from third parties.

1.23 *Impending Application of Newly Issued Accounting Standards not yet Effective*

The IASB issued new and amended standards (IFRS 10, IFRS 11 & IFRS 12) that affect the consolidation and reporting of subsidiaries, associates and joint ventures. These standards were effective with EU adoption from 1 January 2014.

Accounting boundary IFRS are currently adapted in the FReM so that the Westminster Departmental accounting boundary is based on ONS control criteria, as designated by Treasury. A similar review in NI, which will bring NI Departments under the same adaptation, has been carried out and the resulting recommendations were agreed by the Executive in December 2016. With effect from 2020-21, the accounting boundary for Departments will change and there will also be an impact on Departments around the disclosure requirements under IFRS 12. Arms Length Bodies apply IFRS in full and their consolidation boundary may change as a result of the new Standards.

In order to comply with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Department must disclose where it has not applied a new IFRS that has been issued but is not yet effective. The Department has carried out a review of the IFRSs in issue but not yet effective, to assess their impact on its accounting policies and treatment. Other than as outlined below, the Department considers that these standards are not relevant or material to its operations.

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Standard	Effective	FReM Application	Change & Impact
IFRS 9 Financial Instruments	1 January 2018	2018-19	<p>Change:</p> <p>This change simplifies the classification and measurement of financial assets, as well as amending when and how impairments are calculated and reported, moving from an incurred loss to an expected loss model. This will result in impairments being recognised earlier than under IAS 39 Financial Instruments: Recognition and Measurement.</p> <p>Impact on the Department:</p> <p>The Department does not anticipate material changes following adoption of the standard. The main focus of consideration is student loans. The Department continues to liaise with the Department of Education in England on the implications of IFRS 9.</p>
IFRS 15 Revenue from Contracts with Customers	1 January 2018	2018-19	<p>Change:</p> <p>The changes set out steps for revenue recognition along with requirements for accounting for contract costs. The aim of the change is to report information that is more useful about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The initial adoption of IFRS 15 will be retrospective but as an opening balance adjustment as at 1 April 2018.</p> <p>Impact on the Department:</p> <p>The Department does not recognise significant levels of contract revenue. Consequently the Department does not anticipate material changes following adoption of the standard.</p>

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Standard	Effective	FReM Application	Change & Impact
IFRS 16 Leases	1 January 2019	2019-20 (Subject to EU adoption and consultation)	<p>Change:</p> <p>The proposed changes simplify the classification and measurement of leases by introducing a single lessee accounting model, removing the distinction between recognising an operating lease (off balance sheet financing) and a finance lease (on balance sheet financing). The new standard requires recognition of all leases which last over twelve months to be recognised as a finance lease (on balance sheet). This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, with a matching liability. The pattern of recognition of the expenditure will result in depreciation of the right-to-use asset and an associated finance cost being recognised.</p> <p>Impact on the Department:</p> <p>The Department does not anticipate any material effect of bringing on-balance sheet former operating leases through applying the new standard.</p>

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2. Statement of Operating Costs by Operating Segment

The Department's operating segments have been identified by the structure of activities, the division of responsibilities and the basis of reporting to the Accounting Officer. The reportable segments have therefore been identified as the units of service within the Department, with the exception of Finance, HR and Top Management. Net assets are not reported in this way.

The main activities of the Operating Segments comprise:

1. **Economic Development & Infrastructure** - economic infrastructure in support of economic development including energy and minerals; sustainable energy; renewable heat incentive scheme; telecommunications; innovation and R&D policy; policy evaluation and research.
2. **Economic Development & Infrastructure: Repayment of Assistance in respect of the Presbyterian Mutual Society** - manage repayments of the fixed term loan made to Presbyterian Mutual Society (in administration).
3. **Invest Northern Ireland and Tourism** - driving the development of Northern Ireland tourism and delivery of the Department's policies and strategies in relation to business support in Northern Ireland. These include encouraging investment (foreign and indigenous); stimulating entrepreneurial activity; increasing exports and trade; promoting R&D/innovation; and providing development support.
4. **Employment & Skills** – Further and adult education, youth and adult skills training, management and enterprise training.
5. **Student Support & Higher Education** – Funding and support to students, including student loans, Education and Maintenance Allowances and other matters relating to tertiary education and funding and support of higher education, including universities and colleges of education.
6. **Tourism Ireland Ltd** - Tourism Ireland's role is to grow overseas tourism revenue and visitor numbers to Northern Ireland, and to help Northern Ireland to realise its tourism potential.
7. **InterTradelreland** - to support SMEs across Northern Ireland and to develop North/South trade and business development opportunities for the mutual benefit of both economies.
8. **Representation & Regulatory Services** – business regulation; including company law, Insolvency Service, Trading Standards and Consumer Affairs Services, Registry of Credit Unions and Industrial and Provident Societies, the provision of a debt advice service, Health & Safety Executive (NI); and labour market services, including tribunals and labour relations, employment law and redundancy payments.
9. **EU Structural Funds – ERDF Support for Economic Development** – payments and associated income under European Union Structural Funds programmes.
10. **EU Programmes** – payments and associated income under European Social Funds Programmes.
11. **EU Community Initiatives** – payments and associated income under European Peace IV Programmes. The aim of the programme is to promote exchange, knowledge and best practice.

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12. **EU Peace** - payments and associated income under European Peace IV Programmes. This is a unique initiative designed to support peace and reconciliation.

Analysis of the significant movements since 2016-17 is shown in the Performance Analysis section (page 39-46). The figures shown below include all budget categories, DEL, AME and Non-Budget, together with Non-supply income and expenditure (SOAS2).

	2017-18		2016-17	
	Gross Expenditure £000	Income £000	Net Expenditure £000	Net Expenditure £000
Operating Segments				
Economic Development & Infrastructure	45,083	(234)	44,849	56,910
Economic Development & Infrastructure – Repayment of assistance in respect of the Presbyterian Mutual Society	(116)	(2,298)	(2,414)	(2,575)
Invest Northern Ireland & Tourism	141,103	-	141,103	191,289
Employment & Skills	269,839	(7,686)	262,153	272,798
Student Support & Higher Education	446,574	(38,601)	407,973	480,867
Tourism Ireland Ltd	12,724	-	12,724	12,350
InterTradeIreland	3,148	-	3,148	4,026
Representation and Regulatory Services	18,577	(3,838)	14,739	18,494
EU Structural Funds – ERDF Support for Economic Development	826	(483)	343	328
EU Programmes	22,430	(13,585)	8,845	15,238
EU Community Initiatives	1,275	(1,081)	194	-
EU Peace	954	(811)	143	-
Total	962,417	(68,617)	893,800	1,049,725

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2.1 Reconciliation between Operating Segments and Statement of Comprehensive Net Expenditure (SoCNE)

	2017-18			2016-17	
	Total Net Expenditure £000	Non Supply Income (CFERs) £000	Non Supply Expenditure £000	Total Net Expenditure per SoCNE £000	Total Net Expenditure per SoCNE £000
Operating Segments					
Economic Development & Infrastructure	44,849	(43)	-	44,806	56,859
Economic Development & Infrastructure – Repayment of assistance in respect of the Presbyterian Mutual Society	(2,414)	-	-	(2,414)	(2,575)
Invest Northern Ireland & Tourism	141,103	(6)	-	141,097	191,275
Employment & Skills	262,153	(5)		262,148	272,794
Student Support & Higher Education	407,973	-	-	407,973	480,867
Tourism Ireland Ltd	12,724	-	-	12,724	12,350
InterTradeIreland	3,148	-	-	3,148	4,026
Representation and Regulatory Services	14,739	(76)	4,823	19,486	23,818
EU Structural Funds – ERDF Support for Economic Development	343	-	-	343	315
EU Programmes	8,845	-	-	8,845	15,198
EU Community Initiatives	194	-	-	194	-
EU Peace	143	-	-	143	-
Total	893,800	(130)	4,823	898,493	1,054,927
Reconciling Items:					
Finance, Corporate Services and Top Management				22,150	27,412
Total Net Expenditure per SOCNE				920,643	1,082,339

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3. Other Administration Costs

	2017-18 £000	2016-17 £000
Staff Costs ¹ :		
Wages and Salaries	20,660	20,128
Social Security Costs	2,040	2,019
Other Pension Costs	4,544	4,497
Goods and Services	5,191	5,179
Non-cash items:		
Notional Accommodation costs (DoF)	4,255	4,589
Other notional costs	4,257	3,694
Auditors' remuneration and expenses	98	98
Total	41,045	40,204

¹ Further analysis of staff costs is located in the Remuneration and Staff Report on page 82.

During the year, the Department purchased the following non-audit services from its auditor, the Northern Ireland Audit Office:

- National Fraud Initiative Exercise £nil (2016-17: £1,261).

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4. Programme Costs

	<i>Note</i>	2017-18 £000	2016-17 £000
Staff Costs ¹ :			
Wages and Salaries		13,928	15,703
Social Security Costs		1,308	1,490
Other Pension Costs		(1,192)	3,524
Grants		808,164	894,074
EU Grants		15,960	10,159
Goods and Services		8,301	6,028
Non-voted expenditure	SOAS2	4,823	5,424
Foreign exchange (gain)/loss - realised		-	29
Bad Debt		-	13
Non-cash items:			
Financial liability and impairments	11.1, 11.2	160,397	209,444
Borrowing costs (unwinding of discount) on financial liability	11.2, 18	505	609
Depreciation and Amortisation	6,7	111	115
Provision/(release) provided for in year	18	(3,000)	1,338
Investment Revaluation	12	(116)	(92)
Profit on disposal of property, plant and equipment		(3)	-
Loss on disposal of property, plant and equipment		4	73
Total		<u>1,009,190</u>	<u>1,147,931</u>

¹ Further analysis of staff costs is located in the Remuneration and Staff Report on page 82.

Grants includes staff costs of £1.4m (2016-17: £0.4m) which have been charged to EU Programmes as Technical Assistance.

Renewable Heat Incentive (RHI) Scheme

The Financial Statements include the following amounts in respect of the Renewable Heat Incentive Scheme (RHI), both Domestic and Non-Domestic:

- Grant expenditure (above) includes RHI expenditure of £24.5m (2016-17: £45.2m). This amount includes DEL spend of £2.2m (2016-17: £27.1m) and AME

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spend £22.3m (2016-17: £18.1m) as included in the Statement of Assembly Supply (pages 89 to 95);

- Goods and services (admin and programme) includes RHI expenditure of £3m (2016-17: £0.7m);
- Trade payables at Note 17 includes £14.8m for RHI (2016-17: £15.1m); and,
- Financial Commitments at Note 9.2 includes £25.7m for RHI (2016-17: £24.6m).

5. Income

	<i>Note</i>	2017-18 £000	2016-17 £000
Administration		4	4
Programme		2,279	1,730
Student Loan – Effective Interest	<i>11.1</i>	96,391	78,071
Science Research Investment Fund		1,330	1,330
Insolvency Service & Fees and Charges		3,544	3,457
Other Services Fees and Charges		61	283
Invest NI CFER		7	14
Rents		2	2
Interest Receivable	<i>12</i>	2,478	2,658
EU		23,496	18,247
Total		<u>129,592</u>	<u>105,796</u>

Income includes the following amounts that will be due to the Consolidated Fund:

- Administration income £4k (2016-17: £4k);
- Programme income £43k (2016-17: £21k);
- Insolvency Fees and Charges £68k (2016-17: £nil);
- Other Service Fees and Charges £8k (2016-17: £51k);
- Invest NI £7k (2016-17: £14k);
- Interest Receivable £nil (2016-17: £92k); and,
- EU Income £nil (2016-17: £40k).

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6. Property, Plant and Equipment

2017-18

	Land £000	Building £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000	Total £000
Cost or valuation						
At 1 April 2017	1,075	1,000	346	92	663	3,176
Additions	-	-	22	5	39	66
Disposals	-	-	(19)	(42)	(56)	(117)
Revaluations	-	-	-	4	5	9
At 31 March 2018	1,075	1,000	349	59	651	3,134
Depreciation						
At 1 April 2017	-	-	338	90	481	909
Charged in year	-	43	14	2	30	89
Disposals	-	-	(19)	(42)	(52)	(113)
Revaluations	-	(43)	(2)	1	3	(41)
At 31 March 2018	-	-	331	51	462	844
Carrying amount at 31 March 2018	1,075	1,000	18	8	189	2,290
Carrying amount at 31 March 2017	1,075	1,000	8	2	182	2,267
Asset financing						
Owned	1,075	1,000	18	8	189	2,290
Finance Leased	-	-	-	-	-	-
Carrying amount at 31 March 2018	1,075	1,000	18	8	189	2,290

Land and buildings have been professionally revalued by Land and Property Services, on the basis of existing use as at the following dates:

Land – Ulster American Folk Park, Omagh 31 March 2018
Buildings – Consumer Affairs Building, Newtownbreda, Belfast 31 March 2018

Transport Equipment, Information Technology, and Furniture & Fittings are valued using Office of National Statistics (ONS) indices.

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Included in the above are fully depreciated assets with a valuation of £719,301 (2016-17: £737,914) which are still in use.

2016-17

	Land £000	Buildings £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000	Total £000
Cost or valuation						
At 1 April 2016	1,075	1,000	345	184	751	3,355
Additions	-	-	-	-	20	20
Disposals	-	-	-	(92)	(119)	(211)
Revaluations	-	-	1	-	11	12
At 31 March 2017	1,075	1,000	346	92	663	3,176
Depreciation						
At 1 April 2016	-	-	325	176	486	987
Charged in year	-	41	11	6	37	95
Disposals	-	-	-	(92)	(46)	(138)
Revaluations	-	(41)	2	-	4	(35)
At 31 March 2017	-	-	338	90	481	909
Carrying amount at 31 March 2017	1,075	1,000	8	2	182	2,267
Carrying amount at 31 March 2016	1,075	1,000	20	8	265	2,368
Asset financing						
Owned	1,075	1,000	8	2	182	2,267
Finance Leased	-	-	-	-	-	-
Carrying amount at 31 March 2017	1,075	1,000	8	2	182	2,267

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7. Intangible Assets

2017-18

	Software Licence £000	Externally Developed Software £000	Assets under Construction £000	Total £000
Cost or valuation				
At 1 April 2017	8	1,002	701	1,711
Additions	-	-	61	61
Disposals	-	-	-	-
Revaluations	-	4	-	4
At 31 March 2018	8	1,006	762	1,776
Amortisation				
At 1 April 2017	7	945	-	952
Charged in year	1	21	-	22
Disposals	-	-	-	-
Revaluations	-	1	-	1
At 31 March 2018	8	967	-	975
Carrying amount at 31 March 2018	-	39	762	801
Carrying amount at 31 March 2017	1	57	701	759
Asset financing				
Owned	-	-	762	762
Finance Leased	-	39	-	39
Carrying amount at 31 March 2018	-	39	762	801

Software Licence is valued using indices.

Assets under construction comprise initial stage payments towards the upgrade of the Insolvency Service Case Management and Financial Management System.

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2016-17

	Software Licence £000	Externally Developed Software £000	Assets under Construction £000	Total £000
Cost or valuation				
At 1 April 2016	8	974	184	1,166
Additions	-	26	517	543
Disposals	-	-	-	-
Revaluations	-	2	-	2
At 31 March 2017	8	1,002	701	1,711
Amortisation				
At 1 April 2016	5	926	-	931
Charged in year	2	18	-	20
Disposals	-	-	-	-
Revaluations	-	1	-	1
At 31 March 2017	7	945	-	952
Carrying amount at 31 March 2017	1	57	701	759
Carrying amount at 31 March 2016	3	48	184	235
Asset financing				
Owned	1	-	701	702
Finance Leased	-	57	-	57
Carrying amount at 31 March 2017	1	57	701	759

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8. Impairments

	2017-18 £000	2016-17 £000
Charged direct to the Statement of Comprehensive Net Expenditure	-	-
Taken through the Revaluation Reserve	-	-
Total	-	-

9. Capital and Other Commitments

9.1 Capital Commitments

There were no contracted capital commitments at 31 March 2018 or 31 March 2017 not otherwise included in these financial statements.

9.2 Other Financial Commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts or other service concession arrangements). Fulfilling the terms of letters-of-offer is included in this definition. The payments to which the Department is committed are as follows:

	2017-18 £000	2016-17 £000
Other		
Not later than one year	600,047	511,626
Later than one year and not later than five years	227,611	26,881
Later than five years	926	-
Total	828,584	538,507

Included in the commitments figure is an amount of £25.7m (2016-17: £24.6m) relating to the Renewable Heat Incentive Scheme both Domestic and Non-Domestic. New one year regulations for the Renewable Heat Incentive Scheme were introduced from 1 April 2017, which have been extended for a further year to 31 March 2019. No amount has been included as a commitment for the Renewable Heat Incentive Scheme from April 2019 onwards as the amount cannot be estimated with reasonable certainty as it is dependent upon the regulations in place at that time. Work is ongoing in this regard.

The Department has awarded contracts to training providers for the delivery of training programmes comprising ApprenticeshipsNI, Training for Success and Disability Support. The contracts have been awarded for the delivery of this training provision up to July 2019. As the cost of the delivery will be dependent on demand, at this point it is not possible to quantify the cost.

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9.3 Commitments under Leases

Operating leases

There were no operating leases for land or buildings at 31 March 2018 or 31 March 2017.

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

	2017-18 £000	2016-17 £000
Other		
Not later than one year	4	5
Later than one year and not later than five years	-	-
Later than five years	-	-
	<hr/>	<hr/>
Total	<u>4</u>	<u>5</u>

10. Investments - Financial Instruments

Financial Instruments

As the cash requirements of the Department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to very little credit, liquidity or market risk.

The Department measures and presents financial instruments in accordance with IAS 32, IAS 39 and IFRS 7 as interpreted by the FReM. IFRS 7 (Financial Instruments: Disclosure) requires disclosure of information about the significance of financial instruments held by the entity over the year and the nature and extent of risks arising from those financial instruments.

In addition to transactions reflected in these accounts, during the year the Department transfers budget allocation to The Executive Office in order to facilitate the provision of capital funding financing to the Universities under the Financial Transactions Capital Scheme (FTC). FTC is administered by Strategic Investment Board Limited (SIB) on behalf of The Executive Office.

In 2017-18, £8m (2016-17 - £9.4m) was provided by SIB as a loan to Queens University Belfast (QUB) in respect of the Consolidation of Biological Sciences project. 2016-17 also included funding in respect of the University's for the School of Law and Student Hub, as well as Computer Science Facilities. The contractual loan agreement is between QUB and SIB who have accounted for this transaction in their accounts.

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Financial Assets at Carrying Value

Student loans, trade receivables, cash and cash equivalents are included as loans and receivables, and are measured at fair value initially and subsequently at amortised cost.

Financial Liabilities at Carrying Value

Trade payables, early departure cost and debt sale are measured at fair value initially and subsequently at amortised cost.

Fair Values of Financial Instruments

The fair value of the financial instruments above is equivalent to the carrying value disclosed in the financial statements. Financial assets and financial liabilities have not been offset nor presented net in these accounts.

Student Loans

The student loan asset is a significant part of the Department's Statement of Financial Position, and the valuation is based on a complex set of assumptions, including borrowers' earnings on graduation and their likely earnings growth over the life of the loan (25 years). Any changes to these assumptions could have a significant impact on the value of the loan book included in the accounts.

At a national level, the Government is continuing to assess how best to manage its holding of current and future loans, including the potential to realise value for the taxpayer from a sale of its portfolio. While the Department is part of the project taking this forward, led by the Department for Education England (DfE England) and involving all Devolved Administrations, it has been decided not to take part in the current loan sale as there was no evidence of value for money for Northern Ireland.

These accounts present the student loans portfolio valued on the basis that they will continue to be held by the Department until such time as a decision to sell the assets has been made. The valuation basis of income contingent loans reflects the requirements of IAS 39 to hold the loans at amortised cost.

In the absence of an active market for the income contingent loans or any similar arm's length transactions, the discounted cash flow analysis used to value the loans in Note 11 is the most reliable method to derive fair value. In deriving this figure, the Department has used the Treasury's long-term discount rate of RPI plus 0.7%. If an active market existed for student loans, the discount rate applied by potential buyers may be different from the Treasury's RPI plus 0.7%. If the discount rate applied was greater than RPI plus 0.7%, the fair value of the student loans may be lower than the values calculated on the basis applied here.

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Credit Risk

The Department has a statutory obligation to issue student loans and seek repayments in line with legislation. The Department is not permitted to withhold loans on the basis of poor credit rating nor is it able to seek collateral. The Department is therefore exposed to the risk that some student loans will not be repaid, although this is partly mitigated by the fact that most repayments are collected by Her Majesty's Revenue & Customs as part of the tax collection process.

As disclosed in Note 11 and the accounting policy Note 1.9.1, the Department estimates the value of future write-offs when loans are issued based on a model which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour.

DfE England works together with the Student Loans Company Limited (SLC) and Her Majesty's Revenue and Customs (HMRC) to manage the collection of student loan repayments and manage the associated credit risks.

There is a Memorandum of Understanding in place between DfE England and the devolved administrations, including the Department who account for the loan book, the SLC who administers the loan book, and HMRC who collects repayments via the tax system. This sets out the responsibilities of all the parties and contains performance targets and indicators, which are revised annually. The Accounting Officers of HMRC and the SLC report quarterly to DfE England's Accounting Officer on progress towards the agreed targets and performance indicators.

Interest Rate Risk

Income contingent loans are repayable at the same interest rate as the RPI as at March each year, with the proviso that the interest rate can never be more than 1% above the Bank of England base rate nor can it be less than 0%. The amount of student loan interest repayable is therefore subject to the fluctuations in the market interest rate. This can lead to a risk in forecasting the amount of interest payable. Furthermore, if the UK continues to experience interest rates that are lower than RPI and, therefore, the interest rate cap reoccurs with frequency, the future cash flows will be impaired as the modelling assumes, in the long term, that interest is added in line with RPI. The model incorporates the assumption that rates will continue to be less than 1% in the medium term.

Financial modelling uses short and long term forecasts as published by the Office for Budgetary Responsibility (OBR). Any change to these assumptions has the potential to lead to an adjustment to the Department's calculations.

Liquidity Risk

The Department's net revenue resource requirements (as well as its capital expenditure) are financed by resources voted annually by Parliament. The Department is not therefore

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exposed to significant liquidity risks in the same way that a private sector organisation would be.

Foreign Currency Risk

The Department's main exposure to foreign currency risk is in relation to the impact of movements in the Euro on claims made to the European Union, and on advances received from the European Union that are included within payables. The Department does not enter into forward currency contracts and the risk is managed within voted funding provision. Apart from this, the Department's exposure to foreign currency risk is not significant.

At 31 March 2018, with a 10% weakening or strengthening of sterling against the euro, the outturn for the year would have increased by £2.91m or decreased by £2.91m respectively. This movement is attributable to the foreign exchange gains or losses on translation of euro denominated payables.

11. Investments - Financial Instruments

11.1 Student Loans

	<i>Note</i>	2017-18 £000	2016-17 £000
Total value of loans at 1 April		2,112,002	1,993,187
Additional Loan funding	SOAS3	345,502	331,617
Repayments		(89,999)	(80,725)
Effective Interest		96,391	78,071
New impairments		(160,966)	(210,148)
Total value of loans at 31 March		<u>2,302,930</u>	<u>2,112,002</u>

The Student Loans Company Limited issues loans on behalf of the Department for Northern Ireland, the Department for Education (in England and Wales) and the Scottish Executive. The split of total loans between the three Departments is provided by the Student Loans Company.

Student loans are held at amortised cost. This involves the value of the loans issued being discounted to net present value using the effective interest rate method. The effective interest rate for student loans is RPI plus 0.7%, which is the HMT discount rate. In 2017-18, the effective interest was 4.71% (2016-17: 4.14%).

As outlined on the Statement of Cash Flows, student loan cash advances for the period were £345.6m (2016-17: £331.6m) and repayments were £89.4m (2016-17: £80.1m).

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Student Loans issued during the year comprise Tuition Fee Loans paid directly to the Higher Education Institutions and Maintenance Loans paid directly to students. The total loan is repayable by the students. Loans issued can be summarised as follows:

	2017-18 £000	2016-17 £000
Tuition Fee Loans payable to Institutions	207,166	197,181
Maintenance Loans payable to students	138,336	134,436
Total	345,502	331,617

Impairments relate to the cost of new loans being issued and the revaluation of the stock of existing loans. Impairments recognise that in, in aggregate, the impact of the interest rate charged to borrowers and of policy write offs are less than the Government's long terms cost of borrowing. This is offset by the actual debts written off by the Student Loans Company.

11.1a Face Value

The face value of the loan book (gross amount owed by students) is made up of the opening face value, plus additions and capitalised interest, less write offs and repayments. The face value of the loan book at 31 March 2018 was £3,229m (31 March 2017: £2,939m).

	<i>Note</i>	2017-18 £000	2016-17 £000
Opening face value of loan book at 1 April		2,939,064	2,659,588
Less: opening value of loan impairments		(827,062)	(666,401)
Opening carrying value of loan book as at 1 April		2,112,002	1,993,187
New loans issued	SOAS3	345,502	331,617
Less: impairment of loans issued		(96,361)	(104,293)
Fair value of new loans issued		249,141	227,324
Impairment adjustment to opening loan book		(64,605)	(105,855)
Effective Interest	5	96,391	78,071
Repayments		(89,999)	(80,725)
Carrying value of loan book at 31 March		2,302,930	2,112,002
Add back: closing value of loan impairments		926,225	827,062
Face value of loan book at 31 March		3,229,155	2,939,064

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11.1b Forecasting Model

Student loans are subsidised as students are only charged interest equivalent to the rate of inflation, or Bank of England base rate plus 1%, whichever is the lower. The Department meets the costs resulting from difference between the forecast future interest paid by students and the cost of capital on loans, which is known as the interest subsidy impairment. The interest subsidy impairment therefore reflects the cost to the Government of issuing and holding the loan. The Department increases the impairment based on a percentage of loans issued in year.

The estimates underpinning these impairments are based on a forecasting model (the Stochastic Earnings Path model, adapted for Northern Ireland) which holds data on the demographic and behavioural characteristics of students in order to predict their borrowing behaviour and estimates the likely repayments of student loans. The valuation is based on a set of simulated borrower profiles, derived from a complex set of assumptions, including earnings on graduation and their likely earnings growth over the life of the loan (which could be 25 years). Any changes to these assumptions could have an impact on the value of the loan book included in these accounts.

The assumptions used are formally reviewed by the Department each year and the amounts provided reflect the Department's current estimate as at 31 March 2018.

Assurance over the Carrying Value

Each year the carrying value of the student loan book in the accounts is compared with the latest outputs from the student loan repayment model, which is re-run using current assumptions. If there is a significant difference, a review is undertaken to determine the reasons for the variance. The carrying value would only be adjusted if there was sufficient evidence to suggest that the divergence constituted a permanent reduction in the carrying value.

Changes in Assumptions and Modelling

There were no changes in assumptions and modelling during 2017-18 other than updated forecasts by the Office for Budget Responsibility (OBR).

Key Assumptions used to calculate the Student Loan balance at 31 March 2018

The key assumptions that impact on the value of the loan book are the discount rate used, and assumptions made about graduate earnings.

It should be noted that many of the assumptions are independent of each other and could change at the same time. However, changes in earnings, unemployment and other macroeconomic factors would only have a significant impact on the value of the loan book if they were long term.

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Discount Rate

To value the future cash flows, the Department has used RPI plus 0.7%, which is the HM Treasury's long-term discount rate. If an active market existed for student loans, the discount rate applied by potential buyers may be different from this rate - reflecting the buyers' cost of capital and assessment of risk.

Graduate Earnings and Employment

The Stochastic Earnings Path model (adapted for Northern Ireland) assumes future real earnings growth (net of RPI inflation) to be 1.24 percentage points, as this is OBR's long-term forecast. The Stochastic Earnings Path model assumes average nominal earnings growth will be in line with long-term OBR forecasts.

Graduate Income Distribution

The model assumes future graduate income distributions will be similar to those of past graduates and are based on historical data for the Labour Force Survey, the British Household Panel and administrative data held by the Student Loans Company.

Base Rates

The model assumes that Bank of England base rates will be in line with long-term OBR forecasts.

Sensitivity Analysis

The tables below indicate the sensitivity of the valuation of future cash flows to key assumptions that affect the value of the student loan book. They show the changes required in RPI, earnings growth and the Bank of England base rate to create an increase/decrease in the carrying value of the loan book of 1%.

A 1% shift in the carrying value is a relevant deviation to consider as it is larger than the magnitude of the inherent random variation present in the forecasting model. The assumptions could change by a larger amount, causing the carrying value to change by more than 1%. There are no earnings growth forecasts specifically for graduates, so the assumptions include both graduates and non-graduates.

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RPI

The OBR forecast for March RPI in 2017-18 is 3.98%, falling to 2.92% in 2020-21 increasing to 3.00% over the long term. The table below shows the relative percentage changes in RPI that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £23m
Increase by 1%	-2.583%
Decrease by 1%	2.549%

Earnings Growth

Higher earnings growth will increase repayments. The OBR forecast for 2017-18 average earnings growth is 2.83% rising to 4.24% in the long term. The table below shows the relative percentage changes in earnings growth that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £23m
Increase by 1%	3.410%
Decrease by 1%	-3.310%

Bank of England Base Rate

The OBR forecast for the Bank of England base rate in 2018-19 (Q2) is 0.56%, rising to 4.75% in the long term. The table below shows the relative percentage changes in the Bank of England base rate that would cause a 1% shift in the carrying value of the loan book.

Impact on carrying value	1% change = £23m
Increase by 1%	23.827%
Decrease by 1%	-16.109%

Historical data over the last five years shows the extent of change to earnings growth, RPI rates and base rates compared to current levels is:

- The long term OBR assumption for earnings growth is currently 4.24%. Since 2011, the ONS outturn figures for the financial year average of earnings growth have varied between 1.32% and 2.48%.
- The long term OBR assumption for RPI is currently 3.00%. Since 2011, the ONS outturn figures for March RPI have varied between 0.90% and 3.60%.
- The long term OBR assumption for base rates is currently 4.66%. Since 2011, the outturns have all equalled 0.50% except for the last three quarters of 2016-17 which were 0.34%, 0.25% and 0.25%.

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11.2 Financial Liabilities

	2017-18 £000	2016-17 £000
Balance at 1 April	3,660	4,617
New Impairment	(569)	(704)
Borrowing costs	119	124
Receipts/(Payments)	(421)	(377)
	<hr/>	<hr/>
Balance at 31 March	<u>2,789</u>	<u>3,660</u>

Student Loan Debt Sale Costs

The student loan debt sale subsidy is classified within other financial liabilities and is measured at amortised cost in accordance with IAS 39.

The student debt sale subsidy is the additional cost to the Department arising from the Government subsidising the purchaser of the debts beyond the cost that the Government would have incurred had the debts remained in the public sector. This liability arose from loan sales in 1998 and 1999 and represents the proportion of the national sale applicable to Northern Ireland. The subsidy will continue until all the loans are extinguished which is expected to be no earlier than 2025, which is the 25 year duration of the first debt sale agreement.

The annual debt sale subsidy payments are calculated according to a formula set out in the debt sale contracts signed in 1998 and 1999. The subsidy consists of two elements. The interest subsidy element of the payment is calculated as LIBOR plus margin less RPI. Margin is calculated as a percentage of the portfolio with different rates for each contract. The key risk is therefore that the gap between LIBOR and RPI increases. The other key element relates to compensation payable for loan repayments which are deferred or written off, under the terms of the original loan contracts with borrowers.

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12. Financial Asset Investments

	*Presbyterian Mutual Society £000	**Share Capital H&W plc £000	***Catalyst Inc (formerly Northern Ireland Science Park) £000	Total £000
Gross amount:				
Balance at 1 April 2017	144,911	4,600	6,670	156,181
Additions	-	-	-	-
Interest charged	2,298	-	180	2,478
Loan Repayment – Principal	(8,000)	-	-	(8,000)
Loan Repayment – Interest	(2,409)	-	-	(2,409)
Revaluation	116	-	-	116
Balance at 31 March 2018	136,916	4,600	6,850	148,366
Provision:				
Opening Provision at 1 April 2017	(25,000)	(4,600)	-	(29,600)
Provided in year	-	-	-	-
Balance at 31 March 2018	(25,000)	(4,600)	-	(29,600)
Balance at 31 March 2018	111,916	-	6,850	118,766
Analysis of expected timing of cash flows				
	*Presbyterian Mutual Society £000	**Share Capital H&W plc £000	***Catalyst Inc (formerly Northern Ireland Science Park) £000	Total £000
Not later than one year	15,747	-	-	15,747
Later than one year	96,169	-	6,850	103,019
	111,916	-	6,850	118,766

* On 1 August 2011, a 10 year fixed rate loan of £175m at a rate of 2.02% and an interest free loan of £25m were issued to the Presbyterian Mutual Society Limited (in Administration). This loan may be recoverable, in full or in part, depending on property market valuations in future years.

As per IAS 39, the £175m loan has been recorded at amortised cost at an effective interest rate of 1.916%. In November 2013, the Joint Supervisors of the Presbyterian Mutual Society Limited (in Administration) produced financial projections on the timing and quantum of cash flows in respect of repayment of the 10 year fixed term loan.

DfE retains flexibility, as required, to manage loan repayments to ensure full repayment of the fixed term loan taking into consideration potential movements pertaining to the

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property market. While anticipating full repayment of the fixed term loan, DfE has agreed with the Joint Supervisors an amendment to the timing and quantum of cash flows in certain years. This has resulted in an adjustment to the fair value of the fixed term loan of £0.116m in the current year.

As a result of the order of distribution out of PMS' assets agreed by the NI Executive, the interest free loan of £25m is unlikely to be recovered, and has therefore been provided in full.

**The Department holds all 10,996,082 shares of H&W plc which were purchased in September 1989 at a cost of £4.6m. The amount has been fully provided for to reflect the fact that due to the level of the company's liabilities the share capital is deemed to have no value.

***In 2016-17, a loan of £3.67m was provided to Catalyst Inc (formerly Northern Ireland Science Park) under the Financial Transactions Capital Loan Scheme for the development of Concourse III. As per IAS 39, the loan has been recorded at amortised cost at an effective interest rate of 2.789%. A £2.75m loan was advanced in prior years for the same project. This loan has been recorded at amortised cost at an effective interest rate of 2.596%.

12.1 Financial Asset Investments (comparative)

	*Presbyterian Mutual Society £000	**Share Capital H&W plc £000	***Catalyst Inc (formerly Northern Ireland Science Park) £000	Total 2016-17 £000
Gross amount:				
Balance at 1 April 2016	154,438	4,600	2,825	161,863
Additions	-	-	3,669	3,669
Interest charged	2,482	-	176	2,658
Loan Repayment – Principal	(9,500)	-	-	(9,500)
Loan Repayment – Interest	(2,601)	-	-	(2,601)
Revaluation	92	-	-	92
Balance at 31 March	144,911	4,600	6,670	156,181
Provision:				
Opening Provision at 1 April 2016	(25,000)	(4,600)	-	(29,600)
Provided in year	-	-	-	-
Balance at 31 March 2017	(25,000)	(4,600)	-	(29,600)
Balance at 31 March 2017	119,911	-	6,670	126,581

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13. Investment in Associates

Viridian Growth is a venture capital fund, established in August 2001. The investment is similar to unsecured, interest-free loans, repayable only on termination or liquidation of the funds. Repayments from the fund to the Department will not be made until all other investors' loans are repaid plus an internal rate of return of 10% per annum. Given that the current value of the fund is below the cost of the initial investments, the Department has provided in full against its investment.

	2017-18 £000	2016-17 £000
Balance at 31 March	3,340	3,340
Provision at 31 March	(3,340)	(3,340)
Net Balance at 31 March	-	-

14. Investments and Loans in other Public Sector Bodies

Student Loans Company Limited

The Department holds one share, with a nominal value of fifty pence, in the Student Loans Company Limited. The other shares are held by the Government in England and the Devolved Administrations in Scotland and Wales.

15. Cash and Cash Equivalents

	2017-18 £000	2016-17 £000
Balance at 1 April	(1,032)	(3,234)
Net change in cash and cash equivalent balances	(12,315)	2,202
Balance at 31 March	(13,347)	(1,032)

	<i>Note</i>	2017-18 £000	2016-17 £000
The following balances at 31 March were held at:			
Commercial Banks	17	(13,919)	(1,508)
Mineral and Petroleum Bank Account		571	475
Cash in hand		1	1
Balance at 31 March		(13,347)	(1,032)

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Mineral and Petroleum Account

Under the authority of the Minerals (Miscellaneous Provisions) Act (Northern Ireland) 1959 and the Mineral Development Act (Northern Ireland) 1969 all minerals, with certain minor exceptions, are vested in the Department. The transactions arising are reflected in the accounts of the Mineral Account and are not included in these financial statements.

Under the authority of the Petroleum (Production) Act (Northern Ireland) 1964 petroleum rights are vested in the Department. The transactions arising are reflected in the accounts of the Petroleum Account and are not included in these financial statements.

Both of these receipts and payments accounts are audited separately by the Comptroller and Auditor General.

16. Trade Receivables, Financial and Other Assets

	2017-18 £000	2016-17 £000
Amounts falling due within one year:		
Trade receivables	7,931	6,803
Deposits and advances	-	260
Other receivables:		
VAT	290	318
EU receivables	55,188	43,976
Due from National Insurance Fund	2,633	1,446
Prepayments and accrued income	2,846	919
Amounts due from the Consolidated Fund in respect of supply	14,009	15,429
Other Consolidated Fund Extra Receipts due	-	92
	82,897	69,243

Included within the trade receivables is £3m (2016-17: £nil) that will be due to the Consolidated Fund once the debts are collected.

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17. Trade Payables, Financial and Other Liabilities

	2017-18 £000	2016-17 £000 (restated)
Amounts falling due within one year:		
Trade payables	3,423	11,014
Accruals and deferred income	60,057	64,508
EU Programme Advances	21,846	22,934
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:		
received	130	13,987
receivable	-	92
Amounts due to the Consolidated Fund in respect of excess Accounts Receivable:		
received	-	-
receivable	2,999	-
Amounts due to National Insurance Fund	689	819
Bank overdraft	13,919	1,508
	<u>103,063</u>	<u>114,862</u>
Amounts falling due after more than one year:		
Other payables, accruals and deferred income	-	449
	<u>103,063</u>	<u>115,311</u>
Total	<u>103,063</u>	<u>115,311</u>

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18. Provisions for Liabilities and Charges

	H&W £000	Early Departure Costs £000	Long Service Award £000	2017-18 £000
Balance at 1 April 2017	58,284	8	1,920	60,212
Borrowing costs (unwinding of discount)	386	-	-	386
Provided in year	-	-	-	-
Provisions release	(3,000)	-	-	(3,000)
Bad debts previously provided for and written off in the year	-	-	-	-
Provisions utilised in year	<u>(3,000)</u>	<u>(8)</u>	<u>(48)</u>	<u>(3,056)</u>
Balance at 31 March 2018	<u>52,670</u>	<u>-</u>	<u>1,872</u>	<u>54,542</u>

Analysis of expected timing of discounted flows

	H&W £000	Early Departure Costs £000	Long Service Award £000	2017-18 £000
Not later than one year	3,000	-	-	3,000
Later than one year and not later than five years	32,969	-	-	32,969
Later than five years	<u>16,701</u>	<u>-</u>	<u>1,872</u>	<u>18,573</u>
Balance at 31 March 2018	<u>52,670</u>	<u>-</u>	<u>1,872</u>	<u>54,542</u>

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18. Provisions for Liabilities and Charges (*comparative*)

	H&W £000	Early Departure Costs £000	Long Service Award £000	2016-17 £000
Balance at 1 April 2016	60,446	57	1,922	62,425
Borrowing costs (unwinding of discount)	485	-	-	485
Provided in year	1,353	-	-	1,353
Provisions release	-	(15)	-	(15)
Bad debts previously provided for and written off in the year	-	-	-	-
Provisions utilised in year	<u>(4,000)</u>	<u>(34)</u>	<u>(2)</u>	<u>(4,036)</u>
Balance at 31 March 2017	<u>58,284</u>	<u>8</u>	<u>1,920</u>	<u>60,212</u>

18.1 Harland and Wolff plc

The provision in respect of Harland and Wolff plc activities is based on assumptions as to future liabilities and revenues. The outcome of these matters cannot be certain. The provision reflects the approximate amount that the Department may be required to contribute to enable Harland and Wolff plc to fulfil its obligations as they fall due.

The provision reflects the Department's potential liability to meet claims against Harland and Wolff plc in respect of employers' and public liability arising from the collapse of the company's insurer, Chester Street Insurance Holdings Ltd, which went into liquidation on 10 January 2001. This provision is based on actuarial advice and includes known claims, largely in relation asbestos related illnesses of former employees of Harland and Wolff plc, together with unreported claims which may be expected to crystallise over a significant number of years. The amount, £53m as at 31 March 2018 (2016-17: £58m), represents the total estimated liability discounted back to today's prices. The accuracy of the provision is subject to a considerable number of uncertainties including future mortality rates, emergence of new diseases, improvements in medical treatments, and the outcome of future legal cases. An updated actuarial review outlining projected future cash flows was completed during 2016-17 which resulted in a moderate increase in the overall discounted liability. This was primarily due to an update in the rates used to discount future cash flows, the basis of which is disclosed in note 1.16, which more than offset reductions in estimated future cash flows.

The overall undiscounted liability in relation to the employers' and public liability claims referred to above, based on actuarial advice, amounts to £54m (2016-17: £60m).

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18.2 Early Departure Costs

The Department meets the additional costs of benefits beyond the normal Civil Service Pension Schemes (Northern Ireland) benefits in respect of employees who retire early by paying the required amounts annually to the Civil Service Pension Schemes (Northern Ireland) over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate.

18.3 Long Service Award

Provision has been made for a long service award for members of the judicial pension scheme within the Office of the Industrial and Fair Employment Tribunals. The purpose of the long service award is that, subject to any future changes in legislation, the award will compensate for any tax or national insurance charges on lump sums payable from the deregistered judicial pension schemes on retirement, whatever the personal circumstances of the judge or his other pension benefits.

19. Contingent Liabilities

The Department has the following quantifiable contingent liabilities:

a. *Litigation Cases*

There are thirty-nine outstanding cases as at 31 March 2018. The estimated potential liability is less than £220k.

There are a number of strategic litigation cases that have been lodged in relation to holiday pay for Northern Ireland Civil Service employees. Given the nature of these cases and stage of the proceedings it is not possible to determine the outcome or to quantify any potential financial impact.

b. *Future Redundancy Payments*

As part of the arrangement for the transfer of training centres to Further Education colleges, the Department agreed that, for staff that became redundant in the future, it would fund any difference between their redundancy payment and that which they would have received had they remained in the Northern Ireland Civil Service. Due to the inherent uncertainty as to the amount and timing of the future redundancy payments the Department has underwritten, it is not practical to quantify the potential liability that might arise from this undertaking.

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c. *Renewable Heat Incentive Scheme*

The decision of the judicial review in relation to the introduction of the 2017 regulations is being appealed. If this was to be successful then eligible participants would be entitled to payment for the heat generated during the year at original tariffs, i.e., pre-tiering and cap. In this scenario the overall cost of the scheme for the year could return to the level of 2016-17 which could see the department liable for approximately £28m in additional payments.

d. *Presbyterian Mutual Society*

As described at Note 12, on 1 August 2011, a 10 year fixed rate loan of £175m at a rate of 2.02% was issued to the Presbyterian Mutual Society Limited (in Administration). This loan may be recoverable, in full or in part, depending on property market valuations in future years. Current valuations by our independent insolvency advisors indicate that there could be a potential shortfall of between £5m and £6m if the majority of the properties are sold as intended in 2020-21. However the Joint Supervisors of the Society forecast that upsides continue to be sufficient to cover any predicted shortfall. Any potential shortfall is contingent upon the performance of the property market in the remaining period of the loan. The Department considers that this shortfall is unlikely to arise and therefore it is appropriate to disclose this as a contingent liability.

20. Financial Guarantees, Indemnities and Letters of Comfort

The Department did not enter into any quantifiable guarantees, indemnities or did not provide any letters of comfort in 2017-18 or 2016-17. There is, therefore, no liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote. They, therefore, fall to be measured following the requirements of IAS 39.

There are no associated costs to be disclosed to the Assembly in accordance with the requirements of Managing Public Money Northern Ireland.

21. Related Party Transactions

The Department sponsors the Non-Departmental Public Bodies (NDPBs), Independent Autonomous Bodies (IABs) and Cross Border Bodies (CBBs) listed in Note 23. In addition, Harland & Wolff Plc, a limited company which is wholly owned by the Department, is also regarded as being outside the accounting boundary. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department, its NDPBs, IABs and CBBs have undertaken a number of material transactions with other Government Departments and other central Government bodies. Most of these transactions have been with the Department of Education, the former Social Security Agency; and the Department of Finance (formerly Department of Finance and Personnel).

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Transactions that the Department, its NDPBs, IABs or CBBs have undertaken with Members of the Departmental Board and Departmental Audit Committee or companies/bodies in which they have an interest were as follows. All transactions are conducted at arm's length and in accordance with departmental financial procedures.

Harland and Wolff plc

A company wholly owned by the Department received £3m to enable it to meet its liabilities. The directors of Harland and Wolff plc are appointed ex-officio. During 2017-18, the directors were Stephen McMurray, Iain McFarlane and Terry Coyne, all of whom were Departmental employees.

Claire Hughes

Claire Hughes is a Non-Executive Director of the Department who also received £697 of grant funding under the Domestic Renewable Heat Incentive Scheme (2016-17: £680). At 31 March 2018, the outstanding amount payable was £697 (2016-17: £nil).

Grace Nesbitt

Grace Nesbitt is an Independent Member of the Departmental Audit Committee and is also a Director of Acceptable Enterprises Limited. During the year, the Department provided funding to Acceptable Enterprises Limited under the ESF Programme of £108,517 (2016-17: £120,088). At 31 March 2018, the outstanding amount payable was £26,591 (2016-17: £20,502).

Other Senior Managers

Ciaran Doran, Director of European Fund Management Division

Mr Doran's brother, Brian Doran, is Chief Executive of Southern Regional College (SRC). SRC is a Non-Departmental Public Body of the Department as outlined above, and also received funding for the delivery of other programmes. During the year, the Department provided total funding of £32,672,535 (2016-17: £30,763,594) to SRC. At 31 March 2018, the outstanding amount payable was £521,594 (2016-17: £675,253).

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22. Third Party Assets

The assets held at the reporting period date to which it was practical to ascribe monetary values comprised. They are set out in the table below:

	31 March 2017 £000	Gross inflows £000	Gross outflows £000	31 March 2018 £000
Insolvency Account	28,907	9,048	(15,674)	22,281
Northern Ireland National Insurance Fund	31,223	3,633	(5,676)	29,180

These are not departmental assets and are not included in these financial statements. Further information is contained in the published Insolvency Account and the accounts of the Northern Ireland National Insurance Fund.

Insolvency Account

Under Article 358 (1) of the Insolvency (Northern Ireland) Order 1989 trustees in bankruptcy and liquidators of companies must pay the money received in respect of Company Liquidations, Bankruptcies and Estates of Deceased Insolvents, including Arrangements under the control of the Court up to 30 September 1991, into the Insolvency Account pending authorised appropriation.

Northern Ireland National Insurance Fund

The Department acts as agent for the Northern Ireland National Insurance Fund in relation to various aspects of the Employment Rights (Northern Ireland) Order 1996. The transactions and balances arising are reflected in the accounts of the Northern Ireland National Insurance Fund and are not included in these financial statements.

23. Entities within the Departmental Boundary

These accounts comprise the accounts of the core Department.

The accounts of the following entities, all of which are sponsored by the Department, are not included by way of consolidation:

Non-Departmental Public Bodies:

- Invest Northern Ireland (Invest NI);
- Tourism Northern Ireland (Tourism NI);
- Health and Safety Executive for Northern Ireland (HSENI);
- Consumer Council for Northern Ireland (GCCNI);
- Northern Ireland Screen;
- Construction and Industry Training Board–Northern Ireland (CITB-NI);

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- Labour Relations Agency;
- Stranmillis University College;
- the six Further Education colleges;
- Colleges NI;
- InterTradeIreland (Trade and Business Development Body); and,
- Tourism Ireland Company Limited by Guarantee (TICLG).

Independent Autonomous Bodies:

- Ulster University (Higher Education Institution);
- Queens University (Higher Education Institution);
- Open University; and,
- St Mary's University College (Non-Profit Institution Serving Households Body).

In addition, Harland & Wolff Plc, a limited company which is wholly owned by the Department, is also regarded as being outside the accounting boundary.

Financial information about each of the above entities may be obtained from their separate published annual reports and accounts.

24. Events after the Reporting Period

The Department has a responsibility to find a long-term solution to bring expenditure on the Non-Domestic Renewable Heat Incentive (RHI) Scheme back in line with the original policy intention. To inform this solution the Department will launch a Public Consultation during the summer of 2018. The purpose of the formal consultation is to take views from stakeholders and other interested parties on a proposed tariff structure before the Department drafts Regulations for the long term. This process will allow DfE to balance its obligation to the Scheme beneficiaries with its wider obligation to safeguard the public interest and public purse.

It is intended that new Regulations, informed by the Consultation, will be effective from April 2019. In the interim, DfE has extended the tariffs introduced under the 2017 Regulations for a further 12-month period.

There were no events after the reporting period which would require adjustment to the financial statements.

25. Harland and Wolff plc

Harland and Wolff plc is wholly owned by the Department.

The Department holds all 10,996,082 shares of H&W plc which were purchased in September 1989 at a cost of £4.6m.

Details of the group's trading are contained in its accounts, which are prepared under UK GAAP.

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Key Figures extracted from these accounts are:

Statement of income and retained earnings for the year ended 31 March 2018

	2017-18 £000	2016-17 £000
Turnover	-	-
Administration expenses	-	-
Operating loss	-	-
Interest receivable and similar income	-	-
Profit on ordinary activities before taxation	-	-
Tax on ordinary activities	-	-
Profit for the financial year	-	-

Statement of Financial Position as at 31 March 2018

	2017-18 £000	2016-17 £000
Current Assets		
Debtors	50,646	56,358
Cash at bank and in hand	2,062	2,002
	<u>52,708</u>	<u>58,360</u>
Creditors: amounts falling due within one year	(22)	(36)
Net current assets	52,686	58,324
Provisions for liabilities	(52,686)	(58,324)
Net assets	<u>-</u>	<u>-</u>
Capital and reserves		
Called up share capital	10,996	10,996
Profit and loss account	(10,996)	(10,996)
Total shareholders' funds	<u>-</u>	<u>-</u>

Date of Authorisation for Issue

The Accounting Officer authorised the issue of these financial statements on 29 June 2018.

DEPARTMENT FOR THE ECONOMY
ANNEX A – FINANCIAL DATA
for the year ended 31 March 2018

(1) Total Departmental Spend

The table below shows an analysis of Resource Departmental Expenditure Limits (DEL) and Annual Managed Expenditure (AME).

Table 1.1	2016-17	2017-18
	£000	£000
	Outturn	Outturn
Resource DEL		
Economic Development & Infrastructure	35,334	16,020
Economic Development & Infrastructure – Repayment of Assistance PMS	(2,482)	(2,298)
Invest NI & Tourism	527	487
Employment & Skills	105,811	95,483
Student Support & Higher Education	527,776	480,739
Tourism Ireland Ltd	156	156
Intertrade Ireland	138	163
Representation & Regulatory Services	12,711	8,355
EU Structural Funds – ERDF Support	289	295
EU Programmes	15,108	8,985
EU Community Initiative	-	194
Total Resource DEL	695,368	608,579
<i>of which:</i>		
Salaries	46,710	41,724
Consultancy	572	398
Depreciation	115	101
Support to Higher Education	226,055	225,636
Support to Students	89,359	91,084
Notional Cost of subsidising Student Loans	210,542	160,966
Training Programmes	59,106	60,279
Support to Further Education	14,960	14,445
Renewable Heat Incentive Scheme	27,077	2,235
European Programmes	18,788	15,233
Other	2,084	(3,522)
Resource AME		
Economic Development & Infrastructure	20,046	19,570
Employment & Skills	(15)	-
Student Support & Higher Education	(78,655)	(96,840)
Total Resource AME	(58,624)	(77,270)
<i>of which:</i>		
Harland & Wolff Provision	1,839	(2,614)
Renewable Heat Incentive Scheme	18,300	22,300
Early Retirement	(15)	-
Take up/ Revaluation of Debt Sale	(584)	(450)
Effective Interest	(78,071)	(96,390)
Other	(93)	(116)
Total Resource Budget	636,744	531,309

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The table below shows an analysis of Capital Departmental Expenditure Limit (DEL) and Capital Annual Managed Expenditure (AME) categories.

Table 1.2

	2016-17	2017-18
	£000	£000
	Outturn	Outturn
Capital DEL		
Economic Development & Infrastructure	7,334	6,772
Economic Development & Infrastructure – Repayment of Assistance PMS	(6,064)	(8,000)
Employment & Skills	41	804
Student Support & Higher Education	26,142	18,556
Representation & Regulatory Services	553	61
EU Structural Funds – ERDF Support	39	47
EU Programmes	130	-
Total Capital DEL	28,175	18,240
<i>of which:</i>		
Broadband Stimulation	2,661	5,639
Presbyterian Mutual Society	(6,064)	(8,000)
Learning and Teaching for HE Sector	16,965	13,029
University Funding	7,879	3,302
Northern Ireland Science Park	3,844	-
FE IT System	602	1,080
BIS Receipt	(1,330)	(1,330)
Student Loan Capital	2,140	3,283
Capitalised Salaries	796	1,190
Other	682	47
Capital AME		
Economic Development & Infrastructure	(180)	(38)
Student Support & Higher Education	290,952	290,915
Total Capital AME	290,772	290,877
<i>of which:</i>		
Renewable Heat Incentive Scheme	(180)	(38)
Student Loan Issued	331,616	345,503
Student Loan Receipts	(70,307)	(89,999)
Student Loan Capitalised Interest	29,643	35,411
Total Capital Budget	318,947	309,117
Total Departmental Spending		
	955,691	840,426
<i>of which:</i>		
Total DEL	723,543	626,819
Total AME	232,148	213,607

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(2) Non-Budget

The table below shows an analysis of Non-Budget expenditure.

Table 2

	2016-17	2017-18
	£000	£000
	Outturn	Outturn
Non-Budget	402,275	350,010
Notionals	8,423	8,610
Total Non-Budget	410,698	358,620
<i>of which:</i>		
Invest NI	166,802	123,616
Tourism NI	23,960	17,000
Tourism Ireland	12,194	12,568
FE Colleges	181,640	180,967
Other	26,102	24,469

The table below shows the reconciliation between the tables above and SOAS1.

	2016-17	2017-18
	£000	£000
	Outturn	Outturn
SOAS1 Analysis of NET Resource		
Outturn by Function		
Request for Resources A	725,243	634,599
Annual Managed Expenditure	(58,804)	(77,269)
Non-Budget	410,698	358,620
	1,077,137	915,950
Tables Above		
Resource DEL	695,368	608,579
Capital DEL	28,175	18,240
Resource AME	(58,624)	(77,270)
Capital AME	290,772	290,877
Non-Budget	410,698	358,620
	1,366,389	1,199,046
Reconciling Items	289,252	283,096

Reconciling items relate to capital transactions recorded in the Statement of Financial Position and not SOAS1.

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(3) Departmental Administration Spend

Table 3

	2016-17 £000 Outturn	2017-18 £000 Outturn
Economic Development & Infrastructure	5,883	7,895
Invest NI & Tourism	469	487
Employment and Skills	21,606	20,277
Student Support & Higher Education	2,251	2,325
Tourism Ireland Ltd	156	156
Intertrade Ireland	138	163
Representation & Regulatory Services	1,278	1,132
Total Admin	31,781	32,435
<i>of which:</i>		
Salaries	26,644	27,244
Consultancy	371	363
Other	4,766	4,828

DEPARTMENT FOR THE ECONOMY
ANNEX B – REPORT BY THE COMPTROLLER AND AUDITOR GENERAL FOR
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Introduction

- 1 The Department for the Economy (the Department) has responsibility for a range of functions including economic policy, energy, further and higher education, employment and skills programmes, tourism, telecoms, research and statistic services, health and safety at work and mineral development.
- 2 In each of the past two years, I have reported on significant concerns surrounding the operation of the non-domestic Renewable Heat Incentive (RHI) scheme. Both of my reports attached to the Department's Resource accounts have outlined significant weaknesses in the scheme and set out the ongoing actions proposed by the Department to address these weaknesses. There has been a huge level of public interest in how this scheme was set up and managed by the Department and its potential impact on Northern Ireland public expenditure for many years to come.
- 3 My initial report in June 2016 was followed by seven evidence sessions of the Public Accounts Committee between September 2016 and January 2017 when the Renewable Heat Incentive Inquiry was established to carry out an in-depth investigation of the operation of the scheme. The Inquiry is still ongoing and will report in due course.
- 4 My report below provides an update on:
 - how the actions taken by the Department have reduced the total costs of the scheme and the impact on the block grant for the remainder of the scheme;
 - how the reduction in tariff rates from 1 April 2017 has affected the behaviour of applicants on the scheme;
 - actions taken by the Department to improve the quality of inspections and enforcement action; and
 - why I have again decided to qualify my regularity audit opinion.

Total costs in 2017-18

- 5 The Department imposed significant changes from 1 April 2017 to the tariff paid to those who had applied to the scheme before 18 November 2015 which included a new tiered tariff rate and a cap on heat output. This brought the tariff paid to those users into line with those who had applied to the scheme after 18 November 2015. This change to tariff rates was imposed (initially only for one year) in order to try to control future costs, address the issue of excessive returns for some users and to reduce the possible incentive for wasting heat.
- 6 As a result, these new rates applied to all accreditations, no matter when they joined the scheme. Table 1 below compares the rates payable for a 99kW boiler accredited before 18 November 2015:

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Table 1: Change in tariff rates from 1 April 2017

	Original tariff rate	Revised tariff rate
Heat generated per kWh up to 1,314 hours (15 per cent of total hours in the year)	6.4 p/kWh	6.7 p/kWh
Heat generated per kWh over 1,314 hours	6.4 p/kWh	1.5 p/kWh
Maximum kWhs payable	Unlimited	400,000 kWh*

Source: Department

Based on rates payable for a 99kW boiler accredited before 18 November 2015

*** 400,000kWh equates to a 99kW boiler operating approximately 11 hours each day of the year**

- 7 The revised rate was challenged in a judicial review taken by the Renewable Heat Association (RHANI). The judge in the case ruled in favour of the revised tariff being allowed to stand although RHANI has however stated its intention to appeal the decision. Legislation has now been passed through Westminster to extend the revised rate to 31 March 2019 while the Department consults on a more permanent tariff structure.
- 8 As a result of the new tiered rate commencing on 1 April 2017, the annual cost of the scheme has significantly reduced in 2017-18 as outlined in Table 2 below.

Table 2: Annual costs of the RHI scheme

	2017-18	2016-17
	£million	£million
Total cost of RHI scheme in year *	24	45
Costs covered through NI share of UK RHI budget Annually Managed Expenditure (AME)	22	18
Costs met from the NI Executive Departmental Expenditure Limit (DEL)	2	27

*The cost of the RHI scheme in 2017-18 is comprised of £21.7 million (2016-17 - £42 million) for the non-domestic RHI scheme and £2.8 million (2016-17 - £3 million) for the domestic scheme.

Source: Department

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Change in behaviour of applicants

- 9 The change in tariffs appears to have been the main reason for a substantial change in the overall heat generated under non-domestic RHI. The total heat generated has fallen by over 33% in 2017-18 compared to the previous year as set out in Table 3 below. This reduction is particularly marked in the forestry/wood sector which would typically have been engaged in generating heat for wood drying.

Table 3: Heat Output produced in MWh for all applicants

Sector	Number of installations	2017-18	2016-17	% change
		MWh	MWh	
Agriculture	1,114	288,110	425,470	-32%
Forestry / wood	186	42,572	79,935	-47%
Other	828	125,620	178,177	-29%
Total	2,128	456,302	683,582	-33%

Source: Department

- 10 The change in the tariff paid coupled with the reduction in heat generated has resulted in the payment of non-domestic RHI almost halving in the year as shown in Table 4 below.

Table 4: Non – domestic RHI payments for all applicants

Sector	Number of installations	2017-18	2016-17	% change
		£'000	£'000	
Agriculture	1,114	12,922	26,758	-52%
Forestry / wood	186	1,641	4,713	-65%
Other	828	7,155	10,864	-34%
Total	2,128	21,718	42,335	-49%

Source: Department

- 11 The change in the tariff for accreditations pre 18 November 2015 also appears to have driven significant changes in the behaviour of applicants for those boilers. Of the 1,685 boilers accredited before then which remain on the scheme only 349 (21 per cent) appear to have been used for more than 40 per cent of the available hours in the year compared to 926 (55 per cent) last year.
- 12 The extent that boilers applied for before 18 November 2015 were used in 2017-18 and the amount of subsidy received per boiler, compared with 2016-17 is set out in Table 5 below.

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Table 5: Number of hours run by boilers in year for installations before 18 November 2015

Percentage of total annual hours operated in year	Total annual hours run by one boiler in year	Number of boilers in 2017 -18	Number of boilers in 2016 -17	Typical RHI payment for one 99kW boiler in 2017-18 at this level of usage	Typical RHI payment for one 99kW boiler in 2016-17 at this level of usage *
0-10%	Up to 876	221	81	£2,905	£2,819
10-20%	876 - 1,752	356	192	£8,716	£8,456
20-30%	1,752 - 2,628	399	219	£10,017	£14,093
30-40%	2,628 - 3,504	360	269	£11,317	£19,730
40-50%	3,504 - 4,380	231	267	£12,618	£25,267
50-60%	4,380 - 5,256	86	242	£12,764	£31,004
60-70%	5,256 - 6,132	24	213	£12,764	£36,641
70-80%	6,132 - 7,008	6	129	£12,764	£42,278
80-90%	7,008 - 7,884	1	65	£12,764	£47,915
90-100%	7,884 - 8,760	1	10	£12,764	£53,552
		1,685	1,687		

* This figure is based on the midpoint of the range of hours and a 99kW output boiler and the subsidy rates **prior to 18 November 2015**.

Source: Department

- 13 The revised tariff rate also introduced a cap on heat output of 400,000kWh meaning that any heat generated over 400,000kWh would not be paid. 400,000kWh equates to a 99kW boiler operating approximately 11 hours each day of the year. Table 6 below shows the effect the introduction of this cap on heat output has had on the heat generated by 99kW boilers accredited before 18 November 2015.

Table 6: Number of kWh operated by 99kW boilers in year for installations before 18 November 2015

kWh operated in year by 99kW boiler	Number of 99kW boilers in 2017 -18	Number of 99kW boilers in 2016 -17
Less than 400,000kWh	1,567	1,028
More than 400,000kWh	118	659
	1,685	1,687

Source: Department

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- 14 It is clear from the above information that the behaviour of applicants appears to have changed significantly following the introduction of the new tiered rate and cap on heat output for all applicants from 1 April 2017. This may have been because applicants were no longer able to avail of the higher subsidy rates and as a result, there was no longer any incentive to generate heat if this was only being done in order to claim additional subsidies.
- 15 It has been suggested that boiler users may have used wood boilers only to the 400,000kWh maximum and then switched to other heating methods. However I consider this to be unlikely as the cost of generating heat through wood pellets appears to have been considerably cheaper over the last year compared to either oil or gas and therefore there would have been no reason to change heating (approximate costs in 2017-18 per the Department: wood pellets - 3.2 pence per kWh; gas - 5 pence per kWh; and oil - 4 pence per kWh).
- 16 I asked the Department to comment on the changes in behaviour shown and the Department told me that the introduction of the tiered tariff to all applicants had significantly reduced the incentive to produce unnecessary heat as previously the incentive paid for each kWh of heat generated was higher than the cost of production whereas as now once the applicant reaches the top of Tier 1, the incentive paid reduces to significantly below the cost of production. The Department welcomed this as not only was it an important cost control but it also helped contribute to the key objective of the Scheme to reduce carbon emissions.

Inspections

- 17 The Department is currently revising arrangements with Ofgem who administer the NI non domestic Scheme on its behalf. This includes revising how Inspections and Compliance activities are carried out. During 2017-18, the Department and Ofgem carried out a “pilot” of a new inspections process to help inform the way forward. The pilot involved inspecting 33 sites (65 installations) to assess compliance of the installations against the Scheme regulations and guidance. As part of this exercise, the independent inspectors analysed the use of heat, compared the amount of heat produced to recognised benchmarks and calculated an internal rate of return for each installation.
- 18 The inspectors found a range of compliance issues as follows:
- Incorrect installation of heat meter flow and temperature sensors;
 - Incomplete documentation and record keeping;
 - Erroneous heat loss assessments;
 - Undeclared other sources of finances; and
 - Excessive heat generation.
- 19 The inspectors gave each site a rating: good, satisfactory, weak and unsatisfactory. No installations were deemed to be good, 4 satisfactory, 17 weak and 10 unsatisfactory. Two reports remain outstanding.

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- 20 In addition to the pilot inspections, Ofgem carried out additional audits on 30 installations and identified issues in 24 installations (80 per cent). The audits carried out by Ofgem were in relation to specific concerns brought to their attention from a variety of sources and the findings were broadly similar to those listed in paragraph 18 above.
- 21 It is clear from the Department's inspections and Ofgem's audits that problems exist in a significant number of installations. The independent inspectors undertaking the pilot made a number of recommendations, including that all sites should be inspected within a maximum of three years and I asked the Department to comment on whether or not this is achievable.
- 22 The Department told me that it has just appointed inspectors to a framework with the intention of completing up to 250 site inspections in 2018-19, selected on the basis of a risk assessment. In addition, the Department will undertake a series of desk top reviews of sites, which will include reviewing the amount of heat generated and paid for. This approach will be reviewed in March 2019 and adjusted as required. The Department is aiming to complete the programme of inspections and desk reviews within a 3 year period as recommended by the independent inspectors.
- 23 While I note the intention to inspect/review all sites within the next 3 years, I am concerned at the slow rate of progress that has been made to date. It is also vitally important that full enforcement action is taken where inspections identify any issues which may potentially include removal from the Scheme. I asked the Department to comment on the pace of inspections and also on its plans to take enforcement actions arising from the inspections, if required.
- 24 The Department told me that the inspection process now in place, based on a revised methodology developed through the pilot process, and with the selection of sites based on a risk assessment, should help to rebuild public confidence in Scheme compliance. Regarding enforcement activity, the Department told me that based on the work carried out by themselves and Ofgem, three installations have been revoked from the Scheme and a number of further compliance cases are ongoing which could result in further removals from the Scheme where appropriate.

Qualified audit opinion

- 25 I am required under the Government Resources and Accounts Act (Northern Ireland) 2001 to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

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26 I have qualified my audit opinion again this year for the same reasons as the last two years:

- ongoing weaknesses in controls in the non-domestic RHI scheme; and
- expenditure incurred without the necessary approvals in place.

27 While there has been some improvement in cost control in 2017-18 because of the introduction of the revised tariff, I was still unable to obtain sufficient evidence that the controls over the spending on the non-domestic RHI scheme were adequate to prevent or detect abuse of the scheme as issues are still being identified as part of the ongoing inspection process.

28 I have again also qualified my regularity audit opinion because of a lack of required approvals being received by the Department in relation to a significant proportion of the spending on the non-domestic RHI scheme. At the commencement of the scheme in November 2012, the Department of Finance and Personnel (DFP – now the Department of Finance (DoF)) had given approval for expenditure under the scheme up to 31 March 2015. DETI (DfE was previously known as DETI) was due to seek re-approval of the scheme from DFP from 1 April 2015 but this was overlooked and DFP approval was not granted until 29 October 2015.

29 During this seven-month period in 2015-16, there were 788 boiler applications to the scheme, out of a total of 2,128 boiler applications (37 per cent). The ongoing costs incurred during 2017-18 in relation to these 788 applications amounted to £7.9 million (£18.8 million in 2016-17 / £11.9 million in 2015-16) and as stated above, because these applications were accepted onto the scheme by DETI during a period in which there was no DFP approval, the total expenditure in relation to them continues to be irregular.

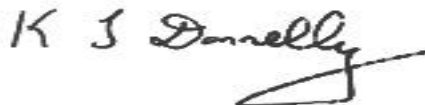
30 The above irregular expenditure incurred on the non-domestic RHI scheme in 2017-18 of £7.9 million represents 36 per cent of the total expenditure incurred on the non-domestic RHI scheme of £21.7 million in 2017-18. It is likely that a similar proportion of the non-domestic RHI expenditure will continue to be irregular each year until 2037-38 when the scheme closes unless the Department is able to obtain retrospective approval from DoF. To date, the Department has not formally sought retrospective approval for these 788 applications, but will consider it following the implementation of the long term tariff structure.

31 I have also qualified my regularity audit opinion in relation to £2.1 million expenditure incurred by Invest Northern Ireland in 2017-18 under the Skills Growth Programme as DoF refused to provide retrospective approval for grant expenditure which had been committed to during the period 1 January 2016 to 5 April 2018. As the Department has overall responsibility for ensuring that approvals are obtained and provides funding to Invest NI through grant in aid, my regularity opinion has also been qualified in respect of this expenditure as it does not conform to the authorities which govern it. This issue is discussed in more detail in the Department's governance statement.

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Conclusion

- 32 The Department has made some progress in addressing the many issues arising from my previous reports on the non-domestic RHI scheme. The introduction of the new tariff rates from 1 April 2017 has resulted in a reduction of costs in the year and has been a key factor in changing the behaviour of applicants. I am however concerned at the slow rate of progress made by the Department in inspecting all sites, although I acknowledge that there is an intention to inspect all sites within the next three years. It is important that these inspections progress at a faster pace and where problems are found, proper enforcement is carried out.
- 33 Whilst recognising that progress has been made on the non-domestic RHI scheme, I continue to have significant concerns about the operation of this scheme and some of the weaknesses in controls that continue to exist. I understand that the Department intends to consult on further changes to the scheme and I will closely examine the actions taken by the Department once this process has been completed.



**KJ Donnelly
Comptroller and Auditor General
29 June 2018**

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